

**CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
AS OF DECEMBER 31, 2002 AND 2001**

Name of the company: Cathay Financial Holding Co., Ltd.

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Independent Auditors' Report

To: Board of Directors
Cathay Financial Holding Co., Ltd. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Cathay United Bank Co., Ltd., and United World Chinese Commercial Bank Co., Ltd. a wholly owned subsidiary. Total assets of subsidiaries are NT\$829,647 millions (US\$23,909 millions) and NT\$862,616 millions (US\$24,646 millions), respectively, which reflects total consolidated assets constituting 39.76% and 47.61%, respectively, and total revenues of subsidiaries are NT\$43,351 millions (US\$1,249 millions) and NT\$51,480 millions (US\$1,471 millions), respectively, constituting 8.56% and 11.40%, respectively, of total consolidated revenues for the years ended December 31, 2002 and 2001. These statements were audited by other auditors whose report have been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.



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In our opinion, based upon our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cathay Financial Holding Co., Ltd. and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and its cash flows for the years ended December 31, 2002 and 2001 in conformity with generally accepted accounting principles in the Republic of China.

BDO Taiwan Union & Co.
Taipei, Taiwan
Republic of China

January 24, 2003

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of dollars)
As of December 31, 2002 and 2001

Assets	2002			2001(Restated)		
	NT \$	US \$	%	NT \$	US \$	%
Current assets:						
Cash and cash equivalents(Notes2,4)	\$149,809,144	\$4,317,266	7.18	\$243,589,939	\$6,959,713	12.32
Due from banks	31,096,014	896,139	1.49	21,148,831	604,252	1.07
Due from central bank(Notes2)	40,810,508	1,176,095	1.96	45,818,263	1,309,093	2.32
Short-term investments(Notes2,5)	393,921,916	11,352,217	18.88	304,698,615	8,705,675	15.40
Receivables(Note2)	77,818,271	2,242,602	3.73	65,526,494	1,872,186	3.31
Prepayments	1,840,326	53,036	0.09	1,672,077	47,773	0.08
Premiums paid for others(Note6)	13,582,195	391,418	0.65	13,117,896	374,797	0.66
Sub-total	708,878,374	20,428,773	33.98	695,572,115	19,873,489	35.16
Exchange bills negotiated discounted and loans(Notes2,7)	978,856,391	28,209,118	46.92	1,016,615,744	29,046,164	51.39
Long-term investments in stock & bonds and real estate (Notes8,9,10,23)	313,934,763	9,047,111	15.05	207,212,240	5,920,350	10.48
Property and equipment(Notes2,11)						
Land	20,043,032	577,609	0.96	19,273,421	550,669	0.97
Buildings and structures	20,118,240	579,776	0.96	19,276,256	550,750	0.98
Furniture and fixtures	2,595,945	74,811	0.12	2,364,799	67,566	0.12
Transportation and communication equipment	224,258	6,463	0.01	220,982	6,314	0.01
Other equipment	7,375,708	212,556	0.35	6,415,863	183,311	0.32
Sub-total	50,357,183	1,451,215	2.40	47,551,321	1,358,610	2.40
Less: Accumulated depreciation	(11,169,332)	(321,883)	(0.54)	(9,956,091)	(284,460)	(0.50)
Construmulated in progress and prepayment for equipment	1,560,283	44,965	0.08	969,932	27,712	0.05
Sub-total	40,748,134	1,174,297	1.94	38,565,162	1,101,862	1.95
Intangible assets(Note2)	6,142	177	0.00	7,536	215	0.00
Other assets(Notes2,12)	44,053,626	1,269,557	2.11	20,161,064	576,030	1.02
Total assets	\$2,086,477,430	\$60,129,033	100.00	\$1,978,133,861	\$56,518,110	100.00
Liabilities & Stockholders' Equity						
Current liabilities						
Due to Central Bank	\$167,129	\$4,816	0.01	\$344,441	\$9,841	0.02
Due to banks	45,757,684	1,318,665	2.19	35,701,234	1,020,035	1.80
Payables	40,758,625	1,174,600	1.95	32,884,540	939,558	1.66
Deposits and remittances payable(Note13)	636,052,762	18,330,051	30.48	693,213,627	19,806,104	35.04
Accounts collected in advance	2,441,376	70,357	0.12	2,101,514	60,043	0.11
Banker's debenture	10,000,000	288,184	0.48	0	0	0.00
Bankers acceptances and funds borrowed	2,206,585	63,591	0.11	3,270,359	93,439	0.17
Sub-total	737,384,161	21,250,264	35.34	767,515,715	21,929,020	38.80
Long-term liabilities						
Bonds payable(Notes2,14)	25,016,479	720,936	1.20	0	0	0.00
Reserve for land revaluation increment tax	37,845	1,091	0.00	37,845	1,081	0.00
Accrued pension liabilities	7,669	221	0.00	1,733	50	0.00
Sub-total	25,061,993	722,248	1.20	39,578	1,131	0.00
Other liabilities						
Reserve for operations and liabilities(Notes2,15)	1,210,546,078	34,886,054	58.02	1,053,333,188	30,095,234	53.25
Other liabilities	2,585,848	74,520	0.12	2,611,501	74,614	0.13
Minority interest	0	0	0.00	79,787,378	2,279,640	4.03
Sub-total	1,213,131,926	34,960,574	58.14	1,135,732,067	32,449,488	57.41
Total liabilities	1,975,578,080	56,933,086	94.68	1,903,287,360	54,379,639	96.21
Stockholders' Equity						
Capital stock						
Common stock(Note16)	84,531,631	2,436,070	4.05	58,386,158	1,668,175	2.95
Capital surplus(Note17)						
Net assets from merger	56,807,974	1,637,117	2.72	23,650,414	675,726	1.20
Retained earnings(Note18)						
Legal reserve	13,713	395	0.00	0	0	0.00
Unappropriated retained earnings	13,085,153	377,094	0.63	137,135	3,918	0.01
Equity adjustments						
Unrealized valuation losses on long term equity investments	(1,032,426)	(29,753)	(0.05)	0	0	0.00
Cumulative translation adjustments	199,570	5,751	0.01	6,657	190	0.00
Treasury stock(Notes2,19)	(42,706,265)	(1,230,728)	(2.04)	(7,333,863)	(209,538)	(0.37)
Total stockholders' equity	110,899,350	3,195,946	5.32	74,846,501	2,138,471	3.79
Total liabilities and stockholders' equity	\$2,086,477,430	\$60,129,032	100.00	\$1,978,133,861	\$56,518,110	100.00

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

The accompanying notes are an intergral part of these consolidated financial statements.
(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)

CATHAY FINANCIAL HOLDING CO.,LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Expressed in thousands of dollars,except earning per share)
For the Years Ended December 31, 2002 and 2001

	2002			2001(Restated)		
	NT \$	US \$	%	NT \$	US \$	%
Operating revenues(Note2)						
Interest income	\$82,270,949	\$2,370,921	16.25	\$92,530,402	\$2,643,726	20.49
Premiums income	286,665,918	8,261,266	56.62	225,993,812	6,456,966	50.03
Claims recovered from reinsures	1,774,184	51,129	0.35	1,610,902	46,026	0.36
Recovered premiums reserve	113,097,853	3,259,304	22.34	103,670,845	2,962,024	22.95
Recovered special claims reserves	5,074,941	146,252	1.00	99,978	2,856	0.02
Recovered claims reserve	304,628	8,779	0.06	262,457	7,499	0.06
Commission and handing fee earned	3,645,211	105,049	0.72	2,636,932	75,341	0.58
Commission income of stock brokerage	106,427	3,067	0.02	71,189	2,034	0.02
Gain on disposal of investments	6,325,053	182,278	1.25	0	0	0.00
Gain on long-term investments	213,193	6,144	0.04	1,014,791	28,994	0.22
Gain on investments-real estate	4,484,011	129,222	0.89	5,249,807	149,994	1.16
Gain on foreign exchange	415,171	11,965	0.08	2,155,298	61,580	0.48
Other operating income	1,909,012	55,015	0.38	16,374,430	467,841	3.63
Sub-total	<u>506,286,551</u>	<u>14,590,391</u>	<u>100.00</u>	<u>451,670,843</u>	<u>12,904,881</u>	<u>100.00</u>
Operating costs(Note 2)						
Interest expenses	(15,108,499)	(435,404)	(2.98)	(26,588,453)	(759,670)	(5.89)
Insurance expenses	(24,216,118)	(697,871)	(4.78)	(25,097,002)	(717,057)	(5.56)
Commission expenses	(470,682)	(13,564)	(0.09)	(249,969)	(7,142)	(0.06)
Insurance claims payment	(125,916,015)	(3,628,704)	(24.87)	(118,548,141)	(3,387,090)	(26.25)
Provision for premiums reserve	(274,975,197)	(7,924,357)	(54.31)	(204,209,821)	(5,834,566)	(45.21)
Provision for special claim reserve	(339,038)	(9,771)	(0.07)	(2,262,593)	(64,645)	(0.50)
Contribution to the stabilization funds	(292,217)	(8,421)	(0.06)	(230,637)	(6,590)	(0.05)
Provision for claims reserve	(314,691)	(9,069)	(0.06)	(304,628)	(8,704)	(0.07)
Handling fee paid	(2,603,858)	(75,039)	(0.51)	(1,947,293)	(55,637)	(0.43)
Commission charges of stock brokerage	(6,254)	(180)	0.00	(3,880)	(111)	0.00
Losses on disposal of investments	0	0	0.00	(14,591,880)	(416,911)	(3.23)
Losses on long-term equity investments	(214,143)	(6,171)	(0.04)	(1,286)	(37)	0.00
Provision for possible losses	(29,386,174)	(846,864)	(5.80)	(9,223,831)	(263,538)	(2.04)
Other operating cost	(550,981)	(15,878)	(0.11)	(214,850)	(6,138)	(0.05)
Sub-total	<u>(474,393,867)</u>	<u>(13,671,293)</u>	<u>(93.68)</u>	<u>(403,474,264)</u>	<u>(11,527,836)</u>	<u>(89.34)</u>
Operating gross profit	<u>31,892,684</u>	<u>919,098</u>	<u>6.32</u>	<u>48,196,579</u>	<u>1,377,045</u>	<u>10.66</u>
Operating expenses	<u>(27,582,853)</u>	<u>(794,895)</u>	<u>(5.45)</u>	<u>(25,888,404)</u>	<u>(739,669)</u>	<u>(5.73)</u>
Operating income	<u>4,309,831</u>	<u>124,203</u>	<u>0.87</u>	<u>22,308,175</u>	<u>637,376</u>	<u>4.93</u>
Non-operating revenues	<u>878,977</u>	<u>25,331</u>	<u>0.17</u>	<u>441,251</u>	<u>12,607</u>	<u>0.10</u>
Non-operating expenses	<u>(1,542,226)</u>	<u>(44,445)</u>	<u>(0.30)</u>	<u>(350,844)</u>	<u>(10,024)</u>	<u>(0.08)</u>
Income from continuing operations before income taxes	<u>3,646,582</u>	<u>105,089</u>	<u>0.74</u>	<u>22,398,582</u>	<u>639,959</u>	<u>4.95</u>
Income taxes(Notes 2, 20)	161,278	4,648	0.03	(5,093,274)	(145,522)	(1.13)
Net income	<u>3,807,860</u>	<u>109,737</u>	<u>0.77</u>	<u>17,305,308</u>	<u>494,437</u>	<u>3.82</u>
Minority interest income	0	0	0.00	(6,705,841)	(191,595)	(1.48)
Net loss (income) before acquisitions of the subsidiaries	9,277,293	267,357	1.83	(10,462,332)	(298,924)	(2.32)
Consolidated net income	<u>\$13,085,153</u>	<u>\$377,094</u>	<u>2.60</u>	<u>\$137,135</u>	<u>\$3,918</u>	<u>0.02</u>
Earnings per share(expressed in dollars) (Note21)						
Primary earnings per share:						
Income from continuing operations before income taxes	\$0.62	\$0.02		\$3.84	\$0.11	
Net income	<u>\$0.65</u>	<u>\$0.02</u>		<u>\$2.96</u>	<u>\$0.08</u>	
Consolidated net income	<u>\$2.23</u>	<u>\$0.06</u>		<u>\$0.02</u>	<u>\$0.00</u>	
Fully-diluted earnings per share:						
Income from continuing operations before income taxes	\$0.68	\$0.02				
Net income	<u>\$0.69</u>	<u>\$0.02</u>				
Consolidated net income	<u>\$2.20</u>	<u>\$0.06</u>				

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

The accompanying notes are an intergral part of these consolidated financial statements.
(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Expressed in thousands of dollars)
For The Years Ended December 31, 2002 and 2001

Summary	Capital Stock		Capital Surplus		Retained Earnings				Equity Adjustments				Treasury Stock		Total	
	Common Stock				Legal Reserve		Unappropriated Retained Earnings		Cumulative translation adjustments		Unrealized valuation losses on long-term equity investments					
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
By stock Conversion method was incorporated December 31, 2001	\$58,386,158	\$1,668,175	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$58,386,158	\$1,668,175
Net assets from merger			23,650,414	675,726											23,650,414	675,726
Cumulative translation adjustments									6,657	190					6,657	190
Treasury stock													(7,333,863)	(209,538)	(7,333,863)	(209,538)
Net income after tax for the year ended December 31, 2001							137,135	3,918							\$137,135	\$3,918
Balance on December 31, 2001	<u>\$58,386,158</u>	<u>\$1,668,175</u>	<u>\$23,650,414</u>	<u>\$675,726</u>	<u>\$0</u>	<u>\$0</u>	<u>\$137,135</u>	<u>\$3,918</u>	<u>\$6,657</u>	<u>\$190</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$7,333,863)</u>	<u>(\$209,538)</u>	<u>\$74,846,501</u>	<u>\$2,138,471</u>
Balance on January 1, 2002(Restated)	\$58,386,158	1,682,598	\$23,650,414	\$681,568	\$0	\$0	\$137,135	\$3,952	\$6,657	\$192	\$0	\$0	(\$7,333,863)	(\$211,350)	\$74,846,501	\$2,156,960
Appropriations and distributions for 2001																
Legal reserve					13,713	395	(13,713)	(395)							0	(0)
Cash dividends			(8,789,809)	(253,309)			(118,609)	(3,418)							(8,908,418)	(256,727)
Remuneration paid to directors and supervisors							(4,800)	(138)							(4,800)	(138)
Bonus paid to employees							(13)	(1)							(13)	(1)
Shares converted for issuing new shares	26,145,473	753,472													26,145,473	753,472
Net assets from merger			41,947,369	1,208,858											41,947,369	1,208,858
Cumulative translation adjustments									192,913	5,559					192,913	5,559
Unrealized valuation losses on long-term equity investments											(1,032,426)	(29,753)			(1,032,426)	(29,753)
Treasury stock													(35,372,402)	(1,019,378)	(35,372,402)	(1,019,378)
Net income after tax for the year ended December 31, 2002							13,085,153	377,094							13,085,153	377,094
Balance on December 31, 2002	<u>\$84,531,631</u>	<u>\$2,436,070</u>	<u>\$56,807,974</u>	<u>\$1,637,117</u>	<u>\$13,713</u>	<u>\$395</u>	<u>\$13,085,153</u>	<u>\$377,094</u>	<u>\$199,570</u>	<u>\$5,751</u>	<u>(\$1,032,426)</u>	<u>(\$29,753)</u>	<u>(\$42,706,265)</u>	<u>(\$1,230,728)</u>	<u>\$110,899,350</u>	<u>\$3,195,946</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

The accompanying notes are an integral part of these consolidated financial statements.

(Cathay Financial Holding Co., Ltd. was incorporated on December 31, 2001)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of dollars)
For the Years Ended December 31, 2002 and 2001

	2002		2001(Restated)	
	NT \$	US \$	NT \$	US \$
Cash flows from operating activities				
Consolidated net income	\$13,085,153	377,094	\$137,135	3,918
Adjustments:				
Income (loss) for minority interest	0	0	6,705,842	191,596
Net gain (loss) before acquisition of the subsidiaries	(9,277,294)	(267,357)	10,462,332	298,924
Loss (gain) on bad debt	4,442,035	128,013	3,475,825	99,309
Amortizations	322,636	9,298	3,823	109
Depreciation	2,699,441	77,794	2,387,698	68,220
Provision for reserve for operations	300,395,885	8,656,942	212,622,522	6,074,929
Recovered reserve for operations	(116,498,391)	(3,357,302)	(102,616,674)	(2,931,905)
Applicant terminates the insurance contract income	(1,979,031)	(57,033)	(1,416,606)	(40,474)
Gain on mortgaged property and collated assumed	20,589	593	(580)	(17)
Loss on disposing of delinquent assets	284,191	8,190	0	0
Loss (gain) on disposal of property and equipment	35,078	1,011	48,054	1,373
Increase (decrease) in bonds payable redemption	516,479	14,884	0	0
Loss (gain) on disposal of investments	(40,636)	(1,171)	(89,170)	(2,548)
Loss (gain) on disposal of real estate	11,815	340	2,184	62
Amortization long-term investments in bonds	90,513	2,608	39,683	1,134
Unrealized loss (gain) on long-term investments	271,088	7,812	(530,267)	(15,150)
Effects of exchange rate changes	(14,690)	(423)	(63,181)	(1,805)
Decrease (increase) in short-term investments	(99,304,407)	(2,861,798)	(14,105,217)	(403,006)
Decrease (increase) in receivables	(11,765,767)	(339,071)	(9,660,254)	(276,007)
Decrease (increase) in prepayments	(59,500)	(1,715)	(411,636)	(11,761)
Decrease (increase) in prepaid pension	720,677	20,769	1,058,864	30,253
Decrease (increase) in other current assets	(1,835,919)	(52,908)	(2,628,490)	(75,100)
Decrease (increase) in overdue receivables	(825,164)	(23,780)	(4,719,575)	(134,845)
Decrease (increase) in temporary payments and suspense accounts	17,679	509	(13,230)	(378)
Decrease (increase) in deferred income tax assets	(581,307)	(16,752)	(422,936)	(12,084)
Increase (decrease) in payables	7,846,269	226,117	(1,577,562)	(45,073)
Increase (decrease) in accrued pension liabilities	2,126	61	0	0
Increase (decrease) in accounts collected in advance	245,970	7,088	197,216	5,635
Increase (decrease) in temporary receipts and suspense accounts	65,682	1,893	35,850	1,024
Increase (decrease) in claims reserve	33,018	951	101,554	2,902
Increase (decrease) in other current payable	19,369	558	(21,674)	(619)
Increase (decrease) in deferred income tax liabilities	96,976	2,795	362,926	10,369
Increase (decrease) in other liabilities	(110,188)	(3,175)	169,448	4,841
Net cash provided by (used in) operating activities	88,930,375	2,562,835	99,533,904	2,843,826
Cash flows from investing activities				
Decrease (increase) in forward exchange receivable	(29,622)	(854)	0	0
Increase (decrease) in forward exchange payable	0	0	527,080	15,059
Decrease (increase) in exchange bills negotiated, discounted and loans	(6,769,303)	(195,081)	(32,342,033)	(924,058)
Acquisition of long-term investments in stocks	(101,006,379)	(2,910,847)	(86,134,706)	(2,460,992)
Disposal of long-term investments in stocks	244,601	7,049	65,248	1,864
Decrease (increase) in long-term investments in bonds	(280,337)	(8,079)	(183,425)	(5,241)
Deposol of investment in real estate	36,698	1,058	16,902	483
Acquisition of investment in real estate	(8,362,381)	(240,991)	(8,460,007)	(241,714)
Disposal of property and equipment	48,133	1,387	31,893	911

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
(Expressed in thousands of dollars)
For the Years Ended December 31, 2002 and 2001

	2002		2001(Restated)	
	NT \$	US \$	NT \$	US \$
Acquisition of property and equipment	(2,578,467)	(74,307)	(2,578,986)	(73,685)
Acquisition of intangible assets	(3,346)	(96)	(2,950)	(84)
Decrease (increase) in deferred charges	(584,372)	(16,841)	(142,490)	(4,071)
Decrease (increase) in non-operation assets	(1,719,885)	(49,564)	(718,673)	(20,533)
Decrease (increase) in guarantee deposits paid	1,066,094	30,723	(387,079)	(11,059)
Decrease (increase) in funds held by ceding companies	(26)	(1)	0	0
Decrease (increase) in loans	7,792,045	224,555	(17,847,757)	(509,936)
Decrease (increase) in due form banks	(9,947,182)	(286,662)	(2,899,896)	(82,854)
Decrease (increase) in due form central banks	5,007,755	144,316	(12,295,172)	(351,291)
Decrease (increase) in other assets	(14,076,493)	(405,663)	(3,422,928)	(97,798)
Net cash provided by (used in) investing activities	(131,160,465)	(3,779,898)	(166,774,979)	(4,764,999)
Cash flows from financing activities				
Increase (decrease) in bonds payable	24,500,000	706,052	0	0
Paid other payable for acquisition of property and equipment in prior period	(1,777)	(51)	(2,940)	(84)
Increase (decrease) in funds held for reinsures	(1,063)	(31)	(308)	(9)
Increase (decrease) in guarantee deposits received	(24,866)	(717)	(119,931)	(3,426)
Remuneration paid to directors and supervisors	(352,350)	(10,154)	(376,562)	(10,759)
Bonus paid to employees	(141,534)	(4,079)	(157,527)	(4,501)
Cash dividends	(10,794,251)	(311,073)	(8,903,559)	(254,387)
Increase (decrease) in due to banks	9,124,233	262,946	(8,036,423)	(229,612)
Increase (decrease) in deposits	(56,228,647)	(1,620,422)	56,800,666	1,622,876
Increase (decrease) in due to central bank	(177,313)	(5,110)	191,501	5,471
Increase (decrease) in banker's acceptance and funds borrowed	(1,063,774)	(30,656)	430,882	12,311
Increase (decrease) in banker's debenture	10,000,000	288,184	0	0
Acquisition of treasury stock	(26,388,624)	(760,479)	(11,004,482)	(314,414)
Reissued treasury stock	0	0	347,586	9,931
Net cash provided by (used in) financing activities	(51,549,966)	(1,485,590)	29,168,903	833,397
Effects of exchange rate changes	1,263	36	112,601	3,217
Increase (decrease) in cash and cash equivalents	(93,778,793)	(2,702,617)	(37,959,571)	(1,084,559)
Cash and cash equivalents at the beginning of period	243,589,939	7,019,883	281,549,510	8,044,272
Cash and cash equivalents at the end of period	\$149,811,146	\$4,317,266	\$243,589,939	\$6,959,713
Supplemental disclosure of cash flows information				
Interest paid during the period	\$16,384,659	\$472,180	\$26,646,000	\$761,314
Less: Capitalization of interest	0	0	0	0
Interest paid (excluding capitalized interest)	\$16,384,659	\$472,180	\$26,646,000	\$761,314
Income tax paid	\$1,740,385	\$50,155	\$8,567,295	\$244,780

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001 were NT\$34.70 and NT\$35.00 to US\$1.00)

The accompanying notes are an integral part of these consolidated financial statements.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of dollars unless otherwise stated)
As of December 31, 2002 and 2001

1. Organization of Business Scope

(1) Cathay Financial Holding Co., Ltd.

Cathay Financial Holding Co., Ltd. (the “Company”) was incorporated in Taiwan on December 31, 2001 from Cathay Life Insurance Co., Ltd. (Cathay Life) by stock conversion method. Pursuant to the provisions of the Financial Holding Company Law of the Republic of China (“R.O.C.”). On April 22, 2002, Cathay Century Insurance Co., Ltd. (Cathay Century) and Cathay United Bank Co., Ltd. (Cathay Bank) joined Cathay Financial Holding Co., as two subsidiaries of the Company by stock conversion method. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (UWCCB) become subsidiaries, of the Company by stock conversion method. The Company mainly engages in the financial holding business activities.

(2) Subsidiaries

- A. Cathay Life Insurance Co., Ltd. (a subsidiary-Cathay Life) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“R.O.C.”). A subsidiary-Cathay Life mainly engaged in life insurance. The Company’s ownership interest is 100% of the common stock.
- B. Cathay Century Insurance Co., Ltd. (a subsidiary-Cathay Century) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“R.O.C.”). The Company mainly engaged in property and casualty insurance. On June 28, 2002, a subsidiary-Cathay Century changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”. The Company’s ownership interest is 100% of the common stock.
- C. The predecessor of Cathay United Bank Co., Ltd. (a subsidiary-Cathay Bank) was Taiwan First Investment & Trust Co., which was incorporated in June 1971 and transformed into a commercial bank on November 16, 1998, and renamed Cathay United Bank Co., Ltd. A subsidiaries-Cathay Bank is permitted under the Banking Law to engage in:
- (a) All commercial banking operations allowed by the ROC Banking Law (including foreign exchange business operations commenced by the International Banking Department in May 2001).

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- (b) Trust operations (excluding securities underwriting and stock agency services, which have to be approved under other related regulations).
- (c) Short-term bill agency services and trading securities.
- (d) Offshore banking operations (the offshore banking unit was established and commenced operations in September 2002).
- (e) Other related operations as authorized by the central government authorities.

The Company's ownership interest is 100% of the common stock.

D. United World Chinese Commercial Bank Co., Ltd. (a subsidiary-UWCCB) was enfranchised by the government of the Republic of China on January 1975, and started its operations on May 20, 1975. Its is engaged in the following operations:

- (a) All commercial banking operations authorized by the Banking Law in the Republic of China;
- (b) International banking business and related operations;
- (c) Trust and stockbrokerage business;
- (d) Off-shore banking business;
- (e) Other financial operations related to the promotion of investments of Overseas Chinese.

The Company's ownership interest is 100% of the common stock.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

According to the rules and regulations stated in the Financial Holding Company Report, financial holding company should include consolidated financial statements along with the annual and interim reports. When compiling the consolidated financial statement, companies with bank, insurance and security subsidiaries must be included in the consolidated financial statements, all other subsidiaries should be reported in accordance with SFAS No.7. In addition, as SFC states, stocks that can be traded publicly should be compiled within the annual and interim financial statements; subsidiary companies that are controlled by the parent company not only has to follow No.7 form SFAS when compiling, but also be compiled in the financial statements.

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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According to the Financial Holding Company Report Rule #4, so called controlled holding company has to meet either one of the following criteria: the company has hold more than twenty five percent of the voting stock or total capital of a bank, insurance or a security company. Or it has to directly or indirectly appoints or elects more than half of the directors in the board of a bank, insurance or security company.

The consolidated financial statement of the Company for year 2001 and 2002 include the company, and its subsidiary companies, which include Cathay Life Insurance Co., Ltd, Cathay Century Insurance Co., Ltd., Cathay United Bank Co., Ltd. and United World Chinese Commercial Bank. In 2001, the consolidated financial statements contained only two entities as the Company and Cathay Life Insurance Co., Ltd. However, due to more enterprises joined the holding company in the year of 2002, we are required to restate the consolidated financial statement for the year of 2001.

This consolidated financial statement excludes important inter-company transactions has been eliminated.

(2) Basis for Preparation of Financial Statements

Subsidiary-UWCCB financial statements include the accounts of the head office and all of the domestic and foreign branches. All inter-branch account balances and transactions among the head office and the branches have been eliminated.

A subsidiary-Cathay Bank separated accounts for the Banking and Trust Departments. The financial statements of the Banking and Trust Departments were consolidated together. As of November 16, 2001, the Bank had been transformed into a commercial bank for three years, and all trust funds had matured and diminished to zero, except for the employee pension trust funds, which will be diminished until July 20, 2003, as approved by the Ministry of Finance. The employee pension trust fund is administered by the Trust Department and is under the custody of the Banking Department.

(3) Cash and Cash Equivalents

Cash includes cash on hand, unrestricted bank deposits, and all highly liquid investments with a maturity of less than three months.

(4) Due from Central Bank

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Due from Central Bank includes a trust fund deposit reserve and a deposit reserve. According to Article 103 of the R.O.C. Banking Law, trust investment companies are required to maintain a reserve for trust funds, in the form of cash or approved securities, with the Central Bank. After transformation, the R.O.C. Banking Law requires that a commercial bank maintain a deposit reserve at the statutory ratio with the Central Bank.

(5) Short-term Investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method.

Beneficiary certificates are stated at the lower of cost or market value. The cost of beneficiary certificates sold is determined based on the weighted-average cost method.

When market value is obtainable, short-term notes are stated at the lower of cost or market value. The cost of these notes, interest income, and gain or loss due to maturity or as a result of sales of notes are determined by the specific identification method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined by the specific identification method.

(6) Unamortized Acquisition Costs

A subsidiary-Cathay Bank, commission and other direct expenses paid on mortgage loans and vehicle loans are capitalized and amortized using the interest method over the terms of the loans.

The unamortized acquisition costs are recognized as an addition to the related loans; each amortization is recognized against related interest revenue.

(7) Allowance for Bad and Doubtful Debts

The subsidiary-Cathay Life and Cathay Century, allowance for bad debts and doubtful accounts on notes receivable, overdue accounts and loans are determined based on the aging of outstanding balances of such accounts and the past experience of the subsidiaries.

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A subsidiary-Cathay Bank, the allowance for bad debts is measured based on the credit rating, aging analysis of loans and receivables on the balance sheet date, the value of collateral assets and the Rules for Loss Reserve Provision of Bank Asset Evaluation, and Bad Debts Provision for Overdue Loans, Delinquent Loans stipulated by the Ministry of Finance. Probable losses are recorded as a provision for credit losses.

A subsidiary-UWCCB, allowance for doubtful accounts on receivables is provided based on the results of review of the collectibility of accounts balances and the rates adopted by the relevant regulations. Whenever the management of a subsidiary-UWCCB determines the receivables are deemed uncollectible, a charge-off that conforms to a subsidiary-UWCCB's relevant regulations is recommended and approved by the subsidiary-UWCCB's Board of Directors.

(8) Long - Term Investments

A. Long-term Investments in Stocks

Long-term investments in listed companies for which the Company's ownership interest is less than 20% of the voting stock, and over which the Company lacks significant operational influence, are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as income but treated as an increase in the number of shares held. Upon sales of long-term equity investments (accounted for under cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company has significant operational influence.

If changes occur in the capital structure of the invested companies causing an increase or decrease of the value of the stocks, and the Company can no longer

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maintain its original shares of interest, adjustments will be dealt with in the capital surplus and long-term equity investments accounts. If there is any deficiency in the capital surplus account, the difference will be debited to the retained earnings account.

The cost of the disposal of an investment is determined by the weighted-average method.

B. Long-Term Investments in Bonds

Long-term investments in bonds should be accounted for at cost, and any premium or discount should be amortized based on a reasonable and systematic basis.

C. Investments in Real Estate

Investments in real estate are stated at cost when acquired. The cost of investments in real estate and its corresponding revaluation surplus and accumulated depreciation are written off upon retirement or disposal. Gain or loss resulting from disposal of an investment in real estate is classified as an operating gain or loss.

Depreciation is calculated by the straight-line method pursuant to the "Estimated Useful Life of Fixed Assets Table" published by the Executive Yuan of the ROC government (the "Government").

(9) Mortgaged Property and Collateral Assumed

Mortgaged property and collateral assumed are mortgaged real estate assumed from debtors and booked at the acquisition cost from the court. On the balance sheet date, it is stated at the lower of cost or net realizable value.

(10) Property and Equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenance are expensed immediately. Upon disposal of an item of property and equipment, the related cost and accumulated depreciation are removed from the accounts.

Depreciation on depreciable assets is recognized on a straight-line method, based on the useful lives prescribed by the Government of R.O.C.. When the economic useful lives are expired, property and equipment, still in use are depreciated based on the residual value and new estimated remaining useful life.

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(11)Deferred Charges

Deferred charges are amortized over the economic useful life by straight-line method.

A subsidiary-Cathay Bank, purchase cost arising from the purchase of SOGO affinity credit cards business are capitalized and amortized on a straight-line basis over estimated economic lives of 48 months and are accounted for as other operating cost.

(12)Guaranteed Depository Insurance Payment

The subsidiaries-Cathay Life and Cathay Century, according to Article 141 of the Insurance Law of the Republic of China, an amount equal to 15% of the capital stock should be deposited in the Central Bank of China as the "Guaranteed Depository Insurance". The amount was deposited in the form of a bond.

(13)Reserve for Operating

1. A subsidiary-Cathay Life,

Reserve for the operation is organized according to the insurance law provided by the Ministry of Finance. These include Unearned Premium Reserve, Claim Reserve, Special Reserve, and Reserve for Life Insurance. Actuary provides the figures of the reserve in the financial statements.

Ministry of Finance has passed a new regulation on December 24, 2002. Under the regulation, it states that when the accumulated gross amount of "Special Reserve for the Loss Movement" exceeds 30% of the gross amount of "Net Earned Premium," its surplus should be treated as income.

In addition, according to the regulation that was passed on December 30, 2001: It states that the surplus from the "Special Reserve for the Loss Movement should be placed as Special Reserve under Proprietary equity after the board of directors have approved the surplus appropriation act. This amount may not be allocated or used for other purposes unless approved by the board of directors.

Cathay Life has a surplus of NT \$6,249,135 thousand dollars from the "Special Reserve for the Loss Movement" in 2002.

2. A subsidiary-Cathay Century

Reserve for the operation is organized according to the insurance law provided by the Ministry of Finance. These include Unearned Premium Reserve, Claim Reserve, and Special Reserve. The actuary provides the figures of the reserve in the reports.

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(14) Reserve for Securities Trading Losses

According to Article 11 of the Rules Governing Securities Firms, a subsidiary-Cathay Bank and UWCCB engaged in trading securities is required to set aside 10% of net realized trading gains as a provision for trading losses. Such reserve for losses can only be used to cover securities trading losses. No further provision is required when the accumulated provision exceeds NT\$0.2 billion.

(15) Reserve for Guarantee Liabilities

A subsidiary-Cathay Bank, the reserve for guarantee liabilities is determined by evaluating the potential losses on total outstanding guarantees issued and recorded as “provision for loss on guarantees and trading securities”.

A subsidiary-UWCCB, reserve for losses on guarantees are computed at the maximum limit allowed by the relevant laws and regulations based on the account balance of guarantees for custom duties, commodity taxes and contracts.

(16) Reserve for Losses on Stock Brokerage Transactions

Pursuant to the regulations issued by the Ministry of Finance, a subsidiary-UWCCB’s reserve for possible losses on stock brokerage transactions is based on 0.0028% of the amount of total stock traded derived from stock brokerage business until such reserve reached the amount of \$200 million.

(17) Convertible Bonds Payable

The difference between the redemption price and face value of a convertible bond is amortized by the effective interest method and is credited to the reserve for bonds redemption accounts. In addition, this amortization is treated as interest expense.

The book value approach is adopted when the conversion privilege of a convertible bond is exercised. In addition, the accounts of convertible bonds payable and reserve for bonds redemption are transferred to the accounts of capital stock and capital surplus, accordingly, no gain or loss is recognized upon conversion.

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(18)Insurance Premiums Income and Expenses

The subsidiaries-Cathay Life and Cathay Century, direct premiums are recognized on the date the policies became effective. Policy related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At year-end, adjustments are made based on past experience.

(19)Recognition of Interest Income, Commissions and Service Fees

Interest income on loans is recognized on an accrued basis. The interest income on the outstanding loans more than 3 months past due and the delinquent loans on which the interest stops are accrued is recognized on a cash basis. Commissions and service fees are recognized when the provision of service is completed.

(20)Pension Plan

The company has established a pension plan for all employees. Pension plan benefits are based primarily on participants' compensation and the number of years of credited service.

In compliance with R.O.C. SFC regulations, the Company and subsidiaries followed the R.O.C. SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed as of the balance sheet date, and a minimum pension liability will be disclosed in the financial statements based on the difference between the accumulated benefit obligations and the fair value of plan assets.

(21)Foreign-currency Transactions

A.Translations of Foreign Currency Transactions

Foreign-currency transactions should be accounted for at cost and that was recognized on a straight-line method recorded in New Taiwan Dollars at the spot rates when the transactions occur. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. Year-end foreign currency assets and liabilities are translated at the exchange rate on the balance sheet date, and the any gains or losses are resulting from the transaction are credited or charged to current income.

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Assets and liabilities of subsidiary-UWCCB's foreign branches, which are denominated in its local currencies, are translated into New Taiwan Dollars using the method described in the preceding paragraph. Local currencies denominated income and expenses of such branches are translated at weighted-average rate. Gains or losses resulting from the translation are treated as "Translation Adjustments" account under shareholders' equity.

B. Translation of Foreign Subsidiaries' Statements

Financial statements of foreign subsidiaries accounted for by the equity method are translated into New Taiwan Dollars as follows: all assets and liabilities denominated in foreign currencies are translated into New Taiwan Dollars at the exchange rate prevailing on the balance sheet date. Stockholders' equity items are translated on the historical rate basis except for the beginning balance of retained earnings, which is posted directly from the balance of the last year. Statements of income items are translated by the weighted-average exchange rate for the year. Differences arising from a translation are reported as "Cumulative Translation Adjustments" in the section of stockholders' equity as a separate item.

When the financial statements of a foreign operation are translated into domestic currency, the foreign currency financial statements should be first converted into the functional currency if the foreign currency is not the functional currency. This process will have the same results if the transaction is recorded in the functional currency from the beginning. The exchange gain or loss from the conversion is recognized in the current period because it affects directly the cash flows of the foreign operation.

(22)Income Taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable (refund). Furthermore, it requires recognition of temporary differences on deferred income tax liabilities, and deferred income tax assets as well as prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and estimate valuation allowance, if needed. Prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

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Deferred income tax assets and liabilities are classified as current or non-current depending on the underlying assets or liabilities. Deferred income taxes not relating to assets or liabilities are classified as current or non-current based on the length of the expected realizable or reversible period.

As per Article 49 of Financial Holding Company Law, in the case of the company holding the exceeding of 90% of issued shares of its native subsidiaries, the company can be selected as the taxpayer as the shareholding is over 12 months within a taxable year and files the income tax returns with 10% tax of undistributed retained earnings to Tax Authority Under the Income Tax Law.

The Company adopts the provision No. 12, "Accounting for Income Tax Deduction" in dealing with the deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment and technique, R&D, education training, and investment in equity shall be dealt by the current recognition method.

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date of the stockholders' meeting.

(23)Capital Expenditure Expenses

Expenditure is capitalized and amortized over its useful life if it involves a significant amount and benefits future periods. Otherwise, it is expensed in the year of expenditure.

(24)Treasury Stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus-treasury stock. If the disposal price is lower than cost, the difference is debited to capital surplus from similar treasury stock. If the capital surplus-treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average value and is calculated according to its reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the

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difference is debited to capital surplus-treasury stock. If the capital surplus-treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus-treasury stock.

As per Article 31 of Financial Holding Company Law, as the financial institution transformed into the Financial Holding Company, the company will adopt Article 24 to 28 in dealing with the adjustment of the organization and shareholding of its original investment. In the preceding paragraph as referred, the shareholder of the Financial Holding Company can transfer its shares to the employees of Financial Holding Company or those of its subsidiaries within three years; or treat its shares as the equity transferred in accordance with Paragraph 1, Item 2 of Article 28-2 of Securities and Exchange Law hereof; or sell its shares in Security Market or Stock Exchange Market which excluded from the restriction of Article 38. The Shares that are not transferred or unsold will be treated as the unissued shares of the Financial Holding Company and report the changes to government.

Treasury stock of subsidiary was converted into common stock of the Company on December 31 2001; the basis of conservative principle and the R.O.C. GAAP No.30, par value of these converted stocks is equal to that of the issued common stocks of the Company. These common stocks are under the guidance of the “Financial Holding Company Law” of the R.O.C. article 31 and the “Securities and Exchange Law” of the R.O.C. Article 28-2 and Article 38.

Effective from January 1, 2002, the shares of the Company that the subsidiaries held as investments were treated as treasury stock to meet the requirements of SFAS No. 30, “Treasury Stock”, and the authorities under the requirements, it is not necessary to retroactively adjusting the financial statements for the prior years.

(25) Derivative Financial Products Transaction

A. Transactions on forward exchange contracts are translated into New Taiwan Dollars based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At year-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and resulting gains or losses are credited or charged to current income.

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The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of forward contracts are credited or charged to current income in the year of settlement.

B.Forward Exchange Contract for Hedging

The purpose of the forward exchange contracts held by the Company is hedging the risks that may result from changes in currency rates. Transactions on forward exchange contracts are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are recognized to current income.

C.Cross Currency Swap (CCS)

The purpose of the CCS held by the Company is hedging the risks that may result from changes in currency rates and interest rates. Transactions on CCS are recognized based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. The exchange gains or losses resulting from the adjustments of the spot rate in the balance sheet date are recognized as current income. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date. Interests are calculated according to the agreed period, and interest rate. The difference is recognized to the current income.

The net value of receivables and payables of the foreign currency options and forward exchange contracts is offset as an asset or a liability in the balance sheet.

D.A subsidiary-Cathay Bank and UWCCB, derivative financial instruments held or issued for the trading purpose are recorded at cost upon acquisition, and revalued at fair value as of each financial reporting date. Gains and losses resulting from changes in fair values are recognized as current period earnings. Receivables and payables resulting from changes in fair value and from execution of contracts after netting are included in other assets or liabilities.

E.Option

Premiums paid or received for options are recorded as assets or liabilities, respectively. Gains or losses on exercise of such option are credited to or charged

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again current income. At balance sheet dates, options are marked to market and the resulting gains or losses are recognized currently.

F. Interest Rate Swaps

Interest rate swap represents agreements between two parties to exchange periodic interest payment, most often fixed vs. floating, is based on a notional principal amount. The differential to be received or paid is recorded as adjustment of interest income.

(26) Trust Funds

The trust funds of a subsidiary-Cathay Bank before transformation into a commercial bank are all discretionary trust funds. For the administration of the discretionary trust funds, the Bank guarantees to repay the principal and pay a minimum guaranteed interest at specified rates on the principal of the funds within or upon the expiration of the period covering these funds. The remaining profit or loss from a trust fund after deducting guaranteed interest is considered the commission income of the Trust Department or the operating cost of the Trust Department to cover trust fund loss.

For the purpose of conversion into a commercial bank, all discretionary trust funds had been completely diminished in accordance with the reduction plan as of December 31, 2001, except for the employee pension trust fund, which could not be reduced to zero and was approved by the Bureau of Monetary Affairs of the Ministry of Finance in October 2001 to be transferred to the Trust Department and in the custody of the Banking Department. The employee pension trust fund is recorded as deposits of the Banking Department, and the Trust Department only collects a commission fee.

(27) Commitments and Contingent Liabilities

Contingent liabilities and commitments should be recorded at estimated amounts if it is probable that they have been incurred and the amounts can be reasonably estimated. If it is not probable, or it is probable but the amounts cannot be reasonably estimated, the disclosure should be made in the footnote of financial statements.

(28) Convenience Translation Into US Dollars

The financial statements are stated in New Taiwan dollars. Translation of the December 31, 2002 and 2001 New Taiwan dollar amounts into US dollar amounts are included in the financial statements solely for the convenience of the readers, using the noon

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buying rate provided by the Federal Reserve Bank of New York on December 31, 2002 and 2001, of NT\$34.70 and NT\$35.00 to US\$1.00. The convenience translation should not be construed as a representation that the New Taiwan dollars amounts have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

3. Changes in Accounting and Its Effects: None

4. Cash and Cash Equivalents

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Petty cash and cash on hand	\$7,536,318	\$217,185	\$6,934,720	\$198,135
Cash in banks	1,022,008	29,453	7,966,888	227,625
Time deposit	80,690,640	2,325,379	125,561,647	3,587,476
Cash equivalents	55,525,434	1,600,156	96,272,049	2,750,630
Checks for clearing	5,034,744	145,093	6,854,635	195,847
Total	<u>\$149,809,144</u>	<u>\$4,317,266</u>	<u>\$243,589,939</u>	<u>\$6,959,713</u>

5. Short-Term Investments

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Common stock	\$42,805,360	\$1,233,584	\$57,181,320	\$1,633,752
Beneficiary certificates	65,441,900	1,885,934	56,586,583	1,616,760
Government bonds and corporate bonds	97,674,294	2,814,821	68,430,011	1,955,143
Oversea investments	77,554,706	2,235,006	52,038,412	1,486,812
Appoint purpose trust fund	42,641,820	1,228,871	47,860,377	1,367,439
Financial debentures	17,299,550	498,546	2,540,000	72,572
Short-term notes	94,627,063	2,727,005	111,285,347	3,179,581
Sub-total	438,044,693	12,623,767	395,922,050	11,312,059
Less: Cash equivalents	(38,912,541)	(1,121,399)	(83,623,041)	(2,389,230)
Less: Allowance for valuation loss	(5,210,236)	(150,151)	(7,600,394)	(217,154)
Total	<u>\$393,921,916</u>	<u>\$11,352,217</u>	<u>\$304,698,615</u>	<u>\$8,705,675</u>

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A subsidiary-UWCCB's Marketable securities of NT\$16,509,096 (US\$475,766) and NT\$1,452,825 (US\$41,509) thousand at December 31, 2002 and 2001, respectively, were pledged to other parties as collateral for business reserves and guarantees.

6. Premiums Paid for Others

If insurance applicants are unable to meet their insurance installments after their second installment, the MOF ruled that applicants can make written statements, requesting the subsidiary-Cathay Life to pay the premium and interests payable by using the subsidiary's "policy value reserve" prior to the due date of such installment payment or before the insurance contract's termination date. However, applicants may also choose to inform the insurance company by written statements of their intention, instead of paying such installments.

7. Exchange Bills Negotiated Discounted and Loans, Net

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Policy loans for life insurers	\$170,839,738	\$4,923,335	\$173,451,835	\$4,955,767
Import-export bills negotiated and exchange bills negotiated	944,211	27,211	33,883,004	968,086
Short-term loans	39,545,421	1,139,638	40,286,487	1,151,043
Short-term secured loans	117,603,035	3,389,136	145,826,101	4,166,460
Medium-term loans	51,714,446	1,490,330	50,877,760	1,453,650
Medium-term secured loans	159,443,829	4,594,923	197,281,049	5,636,601
Long-term loans	21,986,490	633,616	17,131,816	489,480
Long-term secured loans	425,645,307	12,266,435	364,361,370	10,410,325
Overdrafts	1,156,607	33,332	1,824,972	52,142
Marginal Receivables	369,975	10,662	255,233	7,292
Sub-total	989,249,059	28,508,618	1,025,179,627	29,290,846
Less: Allowance for bad debts	(10,392,668)	(299,500)	(8,563,883)	(244,682)
Total	<u>\$978,856,391</u>	<u>\$28,209,118</u>	<u>\$1,016,615,744</u>	<u>\$29,046,164</u>

Loans secured by policies issued by a subsidiary-Cathay Life.

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The subsidiaries-Cathay Life and Cathay Century, secured loans are loans secured by government bonds, stock, corporate bonds and real estate. Loans with terms for less than one year are classified as short-term loans; loans with terms for more than one year but less than seven years are classified as medium-term loans ; loans with terms for more than seven years are classified as long-term loans.

A subsidiary- Cathay Bank and UWCCB, as of December 31, 2002 and 2001, the past-due loans and other credit loans without accrued interest amounted to NT\$21,531,473 (US\$620,504) and NT\$38,498,334 (US\$1,099,952), respectively, categorized under loans and delinquent loans. The non-accrued interest income is amounted to NT\$1,092,901 (US\$31,496) and NT\$1,728,588 (US\$49,388), respectively, for the years ended December 31, 2002 and 2001.

8. Long-Term Investments in Stocks

<u>Investee</u>	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$(Restated)	US\$(Restated)
	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>	<u>Book Value</u>
A. Under the equity method:				
WK Technology Fund VI Co., Ltd	\$380,209	\$10,957	\$313,048	\$8,944
Cathay Insurance (Bermuda) Co., Ltd.	53,397	1,539	53,261	1,522
Cathay Venture Capital Crop. Vista Technology Venture Capital Corp.	314,588	9,066	331,952	9,484
Omnitek Venture Capital Corp.	119,593	3,446	138,038	3,944
IBT Venture Capital Corp.	152,693	4,400	150,413	4,298
Wa Tech Venture Capital Co., Ltd.	590,214	17,009	589,991	16,857
Cathay Securities Investment Trust Co., Ltd.	176,034	5,073	184,098	5,260
Symphox Information Co., Ltd.	203,626	5,868	193,803	5,537
Lin Yuan Property Management Co., Ltd.	247,950	7,145	281,531	8,044
Cathay Securities Investment Co., Ltd.	31,258	901	0	0
Cathay Property Insurance Agent Co., Ltd.	9,427	272	0	0
	8,266	238	8,726	249

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Cathay Life Insurance Agent Co., Ltd.	17,517	505	6,477	185
Long-term Investment:				
Seaward futures Corp.	1,674,905	48,268	1,679,392	47,983
Seaward Leasing Ltd.	2,131,858	61,437	2,183,894	62,397
Huong Yee Co., Ltd.	612,716	17,658	666,906	19,054
Seaward Insurance Agent Corp.	44,133	1,272	4,516	129
Seaward Card Co., Ltd.	37,363	1,077	33,276	951
Indovina Bank	435,344	12,546	444,238	12,693
Taiwan Real-estate Management Corp.	67,307	1,940	77,119	2,203
Taiwan Finance Corp.	1,013,941	29,220	1,341,724	38,335
Sub-total	8,322,339	239,837	8,682,403	248,069

B. Under the cost method:

WK Technology Fund Co., Ltd.	100,000	2,882	100,000	2,857
Taiwan Aerospace Company	260,000	7,493	260,000	7,429
Koo Group				
Telecommunications Co., Ltd.	899,998	25,937	899,998	25,714
Concord III Venture Capital Co., Ltd.	89,280	2,573	89,280	2,551
Taipei Financial Center Corp.	1,841,591	53,072	1,841,591	52,617
Chunghwa Telecom Co., Ltd.	33,536,958	966,483	566,862	16,196
China Power Venture Capital Co., Ltd.	190,000	5,475	0	0
Investar Dayspring V.C. Inc.	200,000	5,764	200,000	5,714
FAT Venture Capital Co., Ltd.	50,000	1,441	50,000	1,429
Concord IV Venture Capital Co., Ltd.	50,000	1,441	50,000	1,429
WK Technology Fund V Co., Ltd.	150,000	4,323	100,000	2,857
WK Technology Fund IV Co., Ltd.	127,200	3,666	127,200	3,634
Century Venture Capital Co., Ltd.	100,000	2,882	100,000	2,857
Super Tech Venture Capital Corp.	100,000	2,882	100,000	2,857
CDIB & Partners Investment Holding Corp.	1,000,000	28,818	1,000,000	28,571
Alex-Tech Machinery Industrial Co., Ltd.	21,000	605	21,000	600

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Quanta Display Inc.	0	0	1,025,938	29,312
R.O.C. Venture Capital Co., Ltd.	151,970	4,379	151,970	4,342
National Venture Capital Co., Ltd.	100,000	2,882	100,000	2,857
WK Technology Fund VII Co., Ltd.	200,000	5,764	200,000	5,714
Capital Venture Fund II Corp	80,000	2,305	80,000	2,286
Fu Yu Venture Capital Investment Corp.	250,000	7,205	250,000	7,143
Concord VII Venture Capital Co., Ltd.	100,000	2,882	100,000	2,857
Allied Material Technology Corp.	98,400	2,836	98,400	2,811
New Century InfoComm Tech Co., Ltd.	2,132,000	61,441	2,132,000	60,914
Deltamac (Taiwan) Co., Ltd.	0	0	15,200	434
Srsuntour Co., Ltd.	62,000	1,787	62,000	1,771
Titan I Venture Capital Co., Ltd.	150,000	4,323	150,000	4,286
Harbinger Venture Capital Corp.	267,000	7,695	267,000	7,629
Prosperity Venture Capital Corp.	100,000	2,882	100,000	2,857
KGEx.com Co., Ltd.	250,000	7,205	250,000	7,143
United Venture Corp.	90,000	2,594	90,000	2,571
BioCare Corp.	12,000	346	12,000	343
Megic Corp.	18,000	518	18,000	514
WK Technology Fund VII Co., Ltd.	200,000	5,764	200,000	5,714
Hua Chih Venture Capital Corp.	60,000	1,729	60,000	1,714
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,305	80,000	2,286
Formosa Epitaxy Inc.	20,500	591	20,500	586
Win Semiconductors Corp.	50,949	1,468	47,600	1,360
Sintek Photronic Corp.	0	0	75,000	2,143
National Aerospace Fasteners Corp.	0	0	38,000	1,086
Kinik Precision Grinding Co., Ltd.	6,000	173	6,000	171

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Vita Genomics Inc.	87,500	2,521	87,500	2,500
TurboComm Tech. Inc	0	0	50,000	1,429
Tong Hsing Electronic Inc. Co., Ltd.	27,144	782	27,144	775
China Technology Venture Capital Corp.	50,000	1,441	50,000	1,429
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	7,470	259,200	7,406
Applied Vacuum Coating Technologies Co., Ltd.	6,661	192	6,150	176
TaiGen Biotechnology Co., Ltd.	16,500	475	8,250	236
Darly 3 Venture Co., Ltd. Cdid BioScience venture I Inc.	20,000 285,000	576 8,213	10,000 0	286 0
Maxima Venture I, Inc, Taiwan	126,630	3,649	0	0
Parawin Venture Capital Co., Ltd.	50,000	1,441	0	0
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,441	0	0
Cash Box Audio and Video Co., Ltd.	50,000	1,441	0	0
Richtech Technology Co., Ltd.	28,806	830	0	0
Hua VI Venture Capital Corp.	50,000	1,441	0	0
Shin Sheng Venture Capital Investment Corp.	50,000	1,441	0	0
Centillion III Venture Capital Corp.	50,000	1,441	0	0
Harbinger III Venture Capital Corp.	100,000	2,882	0	0
Unitive Semiconductor Taiwan Corp.	46,800	1,348	0	0
Pan Overseas Corp.	7,525	217	7,525	215
China Bills Finance Corp.	224,508	6,470	224,508	6,414
Taiwan Fertilizer Co., Ltd.	104,173	3,002	104,173	2,976
Chinese Products Promotion Center	1,850	53	1,850	53
Han Tech Venture Capital Corp.	154,927	4,465	154,927	4,426
Taiwan Securities Central Depository Co., Ltd.	1,850	53	1,850	53

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Taipei Forex Inc.	8,000	231	8,000	229
Global Securities Finance Corp.	161,930	4,667	161,930	4,627
An Feng Enterprise Co., Ltd.	4,500	130	4,500	129
Euroc II Venture Capital Corp.	40,000	1,153	40,000	1,143
Taiwan International				
Merchandise Exchange Corp.	12,500	360	12,500	357
Strategic Value Fund, Limited				
Partnership	170,019	4,900	157,200	4,491
Chan Sheng Investment				
Development Co., Ltd.	127,400	3,671	127,400	3,640
Financial Information Service				
Co., Ltd.	45,500	1,311	45,500	1,300
Sheng-Hua Venture Capital				
Corp.	50,000	1,441	50,000	1,429
IBU Securities Co., Ltd.	1,045,000	30,115	1,045,000	29,857
Latin America Development				
Co., Ltd.	6,250	180	6,250	179
ProTec Capital Corp.	8,000	231	8,000	229
Taipei Smart Card Corp.	25,000	720	25,000	714
Central Deposit Insurance				
Corp.	10	0	10	0
Centillion Venture Capital				
Corp.	60,000	1,729	60,000	1,714
Taiwan Asset Management				
Corp.	1,020,000	29,395	1,020,000	29,143
Taiwan Financial Asset Service				
Corp.	100,000	2,882	100,000	2,857
Kaohsiung Rapid Transit corp.	299,000	8,617	0	0
Taiwan Cooperative Bank	116,435	3,355	0	0
Modex Taiwan Inc.	25,000	720	0	0
Prepayment of investment:				
Kaohsiung Rapid Transit Corp.	0	0	299,000	8,543
Taiwan Cooperative Bank	0	0	116,435	3,327
Seaward Property Insurance				
Agent Corp.	2,000	58	0	0
Sub-total	<u>48,370,464</u>	<u>1,393,962</u>	<u>15,415,341</u>	<u>440,438</u>
Less: Unrealized gain from				
intercompany transactions	<u>(87,797)</u>	<u>(2,530)</u>	<u>(87,683)</u>	<u>(2,505)</u>
Net	<u>\$56,605,006</u>	<u>\$1,631,269</u>	<u>\$24,010,061</u>	<u>\$686,002</u>

9. Long-Term Investments in Bonds

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Long-term investments in bonds consist mainly the government bonds. As of December 31, 2002 and 2001, long-term investments in bonds amounted to NT\$163,178,449 (US\$4,702,549) and NT\$95,059,252 (US\$2,715,979), respectively.

10. Investment in Real Estate

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$94,078,903	\$2,711,207	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$83,703,729	\$2,412,211
Construction	10,447,165	301,071	0	0	0	0	10,447,165	301,071
Prepayments for buildings and land	414	12	0	0	0	0	414	12
Total	\$104,526,482	\$3,012,290	\$5,131	\$148	(\$10,380,305)	(\$299,144)	\$94,151,308	\$2,713,294

Item	December 31, 2001(Restated)							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$80,122,298	\$2,289,209	\$5,264	\$150	(\$9,181,685)	(\$262,334)	\$70,945,877	\$2,027,025
Construction	17,197,050	491,344	0	0	0	0	17,197,050	491,344
Total	\$97,319,348	\$2,780,553	\$5,264	\$150	(\$9,181,685)	(\$262,334)	\$88,142,927	\$2,518,369

The real estate investments are held mainly to generate rental revenue.

11. Property and Equipment

Item	December 31, 2002							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$20,041,389	\$577,562	\$1,643	\$47	\$0	\$0	\$20,043,032	\$577,609
Buildings and structures	20,118,240	579,776	0	0	(4,690,252)	(135,166)	15,427,988	444,610
Furniture and fixtures	2,595,945	74,811			(2,102,747)	(60,598)	493,198	14,213
Transportation and communication equipment	224,258	6,463	0	0	(89,982)	(2,593)	134,276	3,870
Other equipment	7,375,708	212,556	0	0	(4,286,351)	(123,526)	3,089,357	89,030
Sub-total	50,355,540	1,451,168	1,643	47	(11,169,332)	(321,883)	39,187,851	1,129,332
Construction in progress and prepayment for equipment	1,560,283	44,965	0	0	0	0	1,560,283	44,965
Total	\$51,915,823	\$1,496,133	\$1,643	\$47	(\$11,169,332)	(\$321,883)	\$40,748,134	\$1,174,297

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Item	December 31, 2001(Restated)							
	Cost		Revaluation Surplus		Accumulated Depreciation		Net Value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$19,271,911	\$550,626	\$1,510	\$43	\$0	\$0	\$19,273,421	\$550,669
Buildings and structures	19,276,256	550,750	0	0	(4,266,872)	(121,911)	15,009,384	428,839
Furniture and fixtures	2,364,799	67,566			(1,908,519)	(54,529)	456,280	13,037
Transportation and communication equipment	220,982	6,314	0	0	(88,894)	(2,540)	132,088	3,774
Other equipment	6,415,863	183,311	0	0	(3,691,806)	(105,480)	2,724,057	77,831
Sub-total	47,549,811	1,358,567	1,510	43	(9,956,091)	(284,460)	37,595,230	1,074,150
Construction in progress and prepayment for equipment	969,932	27,712	0	0	0	0	969,932	27,712
Total	\$48,519,743	\$1,386,279	\$1,510	\$43	(\$9,956,091)	(\$284,460)	\$38,565,162	\$1,101,862

- A. A subsidiary-Cathay Life, no property and equipment were pledged as collateral. The insurance coverages of property, equipment and real estate investments are stated at book value.
- B. A subsidiary-Cathay Century, the insurance of insured property and equipment were NT\$76,337(US\$2,200) and NT\$77,689(US\$2,220) as of December 31, 2002 and 2001, respectively. No property and equipment were pledged as collateral.
- C. The insurance of insured property and equipment of the subsidiary-Cathay Bank were NT\$1,265,445 (US\$36,468) and NT\$897,761 (US\$25,650) as of December 31 of 2002 and 2001, respectively. No property and equipment were pledged as collateral.
- D. The insurance of insured property and equipment of the subsidiary-UWCCB were NT\$6,919,958 (US\$199,422) and NT\$5,748,461 (US\$164,242) as of December 31, 2002 and 2001, respectively. No property and equipment were pledged as collateral.

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12. Other Assets

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Non-operating assets	\$4,142,020	\$119,367	\$3,197,528	\$91,358
Guarantee deposits paid	5,180,218	149,286	2,346,270	67,036
Overdue receivables	23,731,405	683,902	9,454,212	270,120
Deferred charges	1,830,318	52,747	407,129	11,632
Deferred income tax assets	4,425,530	127,537	1,231,205	35,178
Pledged assets taken-over	4,624,197	133,262	3,037,305	86,780
Others	119,938	3,456	487,415	13,926
Total	<u>\$44,053,626</u>	<u>\$1,269,557</u>	<u>\$20,161,064</u>	<u>\$576,030</u>

13. Deposits and Remittances Payable

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Checking accounts	\$9,929,600	\$286,156	\$12,467,043	\$356,201
Demand deposits	54,201,135	1,561,992	61,253,082	1,750,088
Demand savings deposits	193,469,811	5,575,499	204,862,310	5,853,209
Time deposits	156,863,113	4,520,551	189,584,361	5,416,696
Time savings deposits	155,726,093	4,487,784	157,671,363	4,504,896
Deposits from post office savings	17,692,572	509,872	16,520,432	472,012
Negotiable certificates of deposit	3,207,700	92,441	3,774,700	107,849
Discretionary pension trust funds	3,602,198	103,810	3,589,219	102,549
Foreign deposits	41,133,315	1,185,398	43,065,897	1,230,455
Outward remittance	1,616	46	10,395	297
Remittances payable	225,609	6,502	414,825	11,852
Total	<u>\$636,052,762</u>	<u>\$18,330,051</u>	<u>\$693,213,627</u>	<u>\$19,806,104</u>

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14. Long-Term Liabilities

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Zero Coupon Convertible Notes	\$24,500,000	\$706,052	\$0	\$0
Redemption premium payable	516,479	14,884	0	0
Total	<u>\$25,016,479</u>	<u>\$720,936</u>	<u>\$0</u>	<u>\$0</u>

Please see note 27, "Zero Coupon Notes Related Information" for details.

15. Reserve for Operations and Liabilities

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Unearned premium reserve	\$17,433,130	\$502,396	\$16,714,179	\$477,548
Reserve for life insurance	1,178,947,860	33,975,443	1,017,789,468	29,079,699
Special claim reserve	13,193,006	380,202	17,928,909	512,255
Claims reserve	808,895	23,311	765,814	21,880
Reserve for losses on guarantees	48,912	1,409	61,736	1,764
Reserve for losses on stock brokerage transactions	35,813	1,032	33,117	946
Reserve for losses on trading securities	78,462	2,261	39,965	1,142
Total	<u>\$1,210,546,078</u>	<u>\$34,886,054</u>	<u>\$1,053,333,188</u>	<u>\$30,095,234</u>

16. Common Stock

- A. As of December 31, 2002 and 2001, the numbers of issued shares were 8,453,163,100 and 5,838,615,765, respectively, with par value of 10 dollars.
- B. The stockholder's meeting of the company resolved on June 27, 2002 declared cash dividends NT\$1.5 dollars each stock and bonus from retained earnings of NT\$137,135(US\$3,918) in 2001 and capital surplus of NT\$10,278,928 (US\$293,684) , belongs to the subsidiary before conversion. The date of issuing cash dividends was on July 26, 2002.

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17. Capital Surplus

- A. The Capital Surplus is the net asset from merger of stock conversion (the net asset from merger) and the sum is NT\$56,807,974(US\$1,637,117) and NT\$23,650,414 (US\$675,726) in December 31, 2002 and 2001. Before converting, there are NT\$1,917,548 (US\$55,261) and NT\$10,278,928 (US\$293,684) is belong to the subsidiaries retained earnings.
- B. The additional paid-in capital of par value through exchange of shares was generated from the transfer of the shares of subsidiaries to the Company. In compliance with was Item 4 of Article 47 of the Financial Holding Company Law, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.
- C. Beside the above-mentioned, pursuant to the R.O.C. Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

18. Retained Earnings

A. Legal Reserve

Pursuant to the Company Law, 10% of the Company's annual after-tax net income must be allocated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve only can be used to offset deficits and not for cash dividends distributions. However, if the total accumulated legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

B. Unappropriated Retained Earnings

According to the Company Law of the Republic of China and the Company's Articles of Incorporations, 10% of the Company's annual earnings, after paying tax and offsetting deficits, if any, should first be distributed as legal reserve. In addition to distributing stock interest and 0.01%~0.05% as bonus for employees, the remainder shall be allocated in accordance with the resolution in the stockholders' meeting.

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After converting, the subsidiary's treasury stock had treat as the Company's treasury stock and it doesn't carry any stockholder rights.

- C. In 2002, pursuant to ROC SFC, the information regarding the appropriation of employees, directors and supervisors, and estimate earnings per share will be available on the website of "Market Observation Post System" immediately after the meeting of directors.

According to the regulations issued by Securities and Futures Commission, the Company should assume that the dividends of year 2001 would be appropriated to the employees, directors and supervisors, and pro forma earnings per share for the current year.

	For the year ended December 31,	
	2001(NT\$)	2001(US\$)
A. Distributions		
Bonus paid to employees-cash	\$13	\$1
Bonus paid to employees-stock	0	0
Remuneration paid to directors and supervisors	4,800	138
B. After income taxes earnings per share:		
(expressed in dollars)	\$0.02	\$0.00
Pro forma earnings per share	\$0.02	\$0.00

$$\text{Pro forma earnings per share} = \frac{\text{Net income} - \text{Bonus paid to employees} - \text{Remuneration paid to directors and supervisors}}{\text{Weighted average outstanding number of shares}}$$

- D. According to the revised tax law of 1998, the Company is required to pay an extra 10% income tax on all undistributed retained earnings generated during the year. The regulation above is no longer in effect.
- E. According to related regulations if any undistributed retained earnings of the Company assessed by the tax authority exceed 100% of its paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings; or the Company may pay an extra 10% income tax on the excess undistributed retained earnings for the year.

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F. In accordance with SFC regulations, subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock as of January 1, 2002. And the cost of these shares cannot be distributed as special reserve.

G. Dividends Policy

According to the operating program, stock dividends are for the purpose of retaining operating capital. The remainder is distributed in cash, but cash dividends are a minimum of 10% of the dividends declared.

19. Treasury Stock

(1) The following is a summary of the movement of treasury stock.

(Unit: in thousands of shares)

Reason for Transfer				Book Value		Per Share	Per Share	Per Share	Per Share	
	Jan. 1, 2002	Increase	Decrease	Dec. 31, 2002	(in NT thousands of dollars)	(in US thousands of dollars)	Book Value (in NT dollars)	Book Value (in US dollars)	Market Value (in NT dollars)	Market Value (in US dollars)
For the purpose to conserve the credit and stockholders' equity of Cathay Financial Holding Co., Ltd.	0	145,674	0	145,674	\$6,123,698	\$176,475	\$42.04	\$1.21	\$36.02	\$1.04
Subsidiaries translated it to employees	156,927	0	0	156,927	7,333,863	211,351	46.73	1.35	36.02	1.04
Parent's stock that the subsidiaries held were treated as treasury stock	0	369,490	0	369,490	13,576,114	391,242	36.74	1.06	36.02	1.04
Holding subsidiaries stocks by conversion were treated as treasury stock	0	348,897	0	348,897	15,672,590	451,660	44.92	1.29	36.02	1.04
Total	<u>156,927</u>	<u>864,061</u>	<u>0</u>	<u>1,020,988</u>	<u>\$42,706,265</u>	<u>\$1,230,728</u>				

(2) The Companies' stocks held by subsidiaries are illustrated as follows:

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Name	Holding share	Amount (in NT thousands of dollars)	Amount (in US thousands of dollars)	Cause	About retained earnings limit	Legal time limit	Pro forma way by the board of directors determine
Cathay Life Insurance Co., Ltd.	156,927	7,333,863	\$211,351	Subsidiaries purchased share were translated	Treasury stock doesn't carry any stockholder rights	Within three years	None
Cathay Life Insurance Co., Ltd.	354,514	12,769,613	368,000	Holding other subsidiaries stock by conversion	None	None	None
Cathay Century Insurance Co., Ltd.	3,397	122,365	3,526	"	None	None	None
Cathay United Bank Co., Ltd.	1,209	43,534	1,255	"	None	None	None
United World Chinese Commercial Bank Co., Ltd.	7,099	255,723	7,370	"	None	None	None
Seaward Leasing Ltd.	3,271	117,821	3,395	"	None	None	None
Total	526,417	\$20,642,919	\$594,897				

(3) A subsidiary-Cathay Life

(Unit: in thousands of shares)

Reason for transfer	Jan. 1, 2002	Increase	Decrease	Dec. 31, 2002
Transferred it to employees	156,927	0	0	156,927
Total	156,927	0	0	156,927

- A. Pursuant to the Securities and Exchange Law of the R.O.C., the outstanding issued shares, which a company can acquire, as treasury stocks, should not exceed 10% of the total shares issued. The limit on reacquisition of shares cannot exceed the sum of the retained earnings plus the premium of issued shares and realized capital surplus. As of December 31 2002, Cathay Life had acquired 156,927,000 shares of treasury stock for NT\$7,333,863(US\$211,351).
- B. Treasury stock of a subsidiary-Cathay Life was converted into common stock of Cathay Financial Holding Co., Ltd. on December 31, 2001. Meanwhile, the status of Cathay Life was going unlisted company, and Cathay Financial Holding Co., Ltd.

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became the parent company with 100% shareholding on the basis of MOF.

(4) A subsidiary-UWCCB

A. The following is a summary of the movement of treasury stock. (Unit: in thousands of shares)

Purposes	Jan. 1, 2002	Addition	Disposal	Dec. 31, 2001
Resale to employees	16,133	-	16,133	-

B. Since January 1, 2002, a subsidiary-UWCCB has adopted SFAS No. 30 to account for its stock held by its subsidiaries as treasury stock. 9,036 thousand shares of the UWCCB's stocks were sold by Seaward Leasing Ltd. and the transaction is treated as sales of treasury stocks in 2002. Consequently, the amount of \$10,398 thousand should be adjusted into capital reserve account.

20. Estimated Income Taxes

A. Income tax expenses include the following:

	For the years ended December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$) (Restated)	2001(US\$) (Restated)
Expected income tax expense	\$3,107,891	\$89,564	\$4,259,231	\$121,692
Add: Interest income of tax on a separate basis	231,479	6,671	849,176	24,262
Extra 10% income tax on undistributed retained earnings	224,012	6,456	31,890	911
Deferred income tax expenses (benefits)	(3,639,784)	(104,893)	(57,553)	(1,644)
Adjustment of income tax	42,444	1,223	93,371	2,668
Less: Income tax credit	(127,320)	(3,669)	(82,841)	(2,367)
Total income tax expenses	<u>(\$161,278)</u>	<u>(\$4,648)</u>	<u>\$5,093,274</u>	<u>\$145,522</u>

As per Article 49 of Financial Holding Company Law, the Company selected as the taxpayer as the shareholding is over 12 months within a taxable year of Cathay Life

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Insurance Co., Ltd. native subsidiaries and files the income tax returns with 10% tax of undistributed retained earnings to the Tax Authority under the Income Tax Law.

B. About income tax return:

- (1) The Company's income tax returns have been unapproved by the tax authorities.
- (2) A subsidiary-Cathay Life income tax returns, up until 2000, have been reviewed and approved by the tax authorities.
- (3) A subsidiary-Cathay Century income tax returns, except 1999, have been filed and assessed by the Tax Authorities until 2000.
- (4) Except for 1999, the ROC tax authority has examined and assessed a subsidiary-Cathay Bank's income tax returns through 2000. The withholding tax on the interest of prior bondholders in 1995, amounting to NT\$37,542 (US\$1,073), was rejected by the tax authority as being able to offset income tax payable. The amount was accounted for as tax expense in 2001. The Bank disagreed with these assessments and petitioned for a remedy. As of the report date, the tax return was still in the administrative court process.
- (5) The tax authorities have determined a subsidiary-UWCCB's income tax returns for the year 1998 and the years prior to the 1998.
- (6) The tax authorities are examining a subsidiary-UWCCB's income tax returns of 1999 and 2001.
- (7) A subsidiary-UWCCB on July 30, 2002, the tax authorities has determined that the amount of NT\$153,319 (US\$4,418) could be deductible for the income tax totally amounting to NT\$193,319 (US\$5,571) for the year 1994. The rest amount has been paid in the current year.
- (8) A valuation allowance has been established due to a subsidiary-UWCCB's income tax returns for the years from 1995 to 1998 that have been determined by the tax authorities, however, UWCCB did not agree with the assessment and appealed to the tax authorities. The claim is in the process by the tax authority.

C. Information related imputation:

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a. The Company

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Balance of imputation credit account	\$1,958,610	\$56,444	\$0	\$0
Imputation credit account ratio	<u>28.31%</u>		<u>30.71%</u>	

b. A subsidiary-Cathay Life

	December 31,			
	<u>2002</u> NT\$	<u>2002</u> US\$	<u>2001</u> NT\$	<u>2001</u> US\$
Balance of imputation credit account	\$3,809,304	\$109,778	\$3,655,177	\$104,434

	December 31,	
	<u>2002 (Estimate)</u>	<u>2001 (Actual)</u>
Imputation credit account ratio (stock dividends) – Actual June 13, 2001	—	34.56%
Imputation credit account ratio (stock dividends) – Actual September 3, 2001	—	36.44%
Imputation credit account ratio (stock dividends) – Actual February 4, 2002	33.33%	—
Imputation credit account ratio (stock dividends) - Estimate	29.64%	—

c. A subsidiary-Cathay Century

	December 31,			
	2002 NT\$	2002 US\$	2001 NT\$	2001 US\$
Balance of imputation credit account	\$184,485	\$5,317	\$137,441	\$3,927

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	December 31,	
	2002 (Estimate)	2001 (Actual)
Imputation credit account ratio	33.33%	33.33%

d. A subsidiary-Cathay Bank

	December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$289,608	\$8,346	\$232,538	\$6,644

	December 31,	
	2002 (Expected)	2001 (Actual)
Creditable ratio for earnings distribution	33.33%	—

e. A subsidiary-UWCCB

	December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$24,777	\$714	\$614,869	\$17,568

The following is the rate of tax credit available for dividends to the Bank's shareholders for the year 2002 and 2001:

	2002	2001
Cash dividend	16.57%	21.11%
Stock dividend	23.80%	32.49%

D. Information relating of undistributed earnings:

Year	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
After 1998	\$15,002,701	\$432,355	\$10,416,063	\$297,602

The undistributed earnings includes additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings is allowed to be distributed as cash dividends.

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21. Earnings Per Share

	For the years ended December 31, 2002													
	Amount (Numerator)						Shares (denominator)	EPS						
	Before income taxes		After income taxes		Consolidated net income			Before income taxes		After income taxes		Consolidated net income		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Net income	\$3,646,582	\$105,089	\$3,807,860	\$109,737	\$13,085,153	\$377,094								
Primary earnings per share														
Net income for common stock holder	3,646,582	105,089	3,807,860	109,737	13,085,153	377,094	5,865,793,845	\$0.62	\$0.02	\$0.65	\$0.02	\$2.23	\$0.06	
Effect of potentially dilutive common stock														
Convertible bonds payable	516,474	14,884	387,359	11,163	387,359	11,163	249,797,077							
Fully-diluted earnings per share														
Net income for common stock holder & effect of potentially common stock	4,163,061	119,973	4,195,219	120,900	13,472,512	388,257	6,115,590,922	\$0.68	\$0.02	\$0.69	\$0.02	\$2.20	\$0.06	

	For the years ended December 31, 2001													
	Amount (Numerator)						Shares (denominator)	EPS						
	Before income taxes		After income taxes		Consolidated net income			Before income taxes		After income taxes		Consolidated net income		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Net income	\$22,398,582	\$639,959	\$17,305,308	\$494,437	\$137,135	\$3,918								
Primary earnings per share														
Net income for common stock holder	22,398,582	639,959	17,305,308	494,437	137,135	3,918	5,681,688,765	\$3.84	\$0.11	\$2.96	\$0.08	\$0.02	\$0.00	

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22.Related Party Transactions

(1) *Related parties*

Name	Relationship
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	The investee is accounted for using equity method
Lin Yuan Investment Co., Ltd.	Affiliate
Cathay General Hospital	Affiliate
Cathay Life Charity Foundation	Affiliate
Wan Pao Development Co., Ltd.	Their chairman is an second immediate family member of the company's chairman
Cathay Insurance (Bermuda) Co., Ltd.	The investee is accounted for using equity method
Symphox Information Co., Ltd.	The investee is accounted for using equity method
Cathay Securities Investment Co., Ltd.	The investee is accounted for using equity method
Cathay Life Insurance Agent Co., Ltd.	The investee is accounted for using equity method
Cathay Property Insurance Agent Co., Ltd.	The investee is accounted for using equity method
Uni-President Enterprise Co., Ltd.(Uni-President)	The director of a subsidiary-Cathay Bank (resigned August 6, 2001)
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using equity method
Seaward Futures Corp.	The investee is accounted for using equity method
Seaward Leasing Ltd.	The investee is accounted for using equity method
Seaward Insurance Agent Corp.	The investee is accounted for using equity method
Huong Yee Co., Ltd.	The investee is accounted for using equity method
Taiwan Real-estate Management Corp.	The investee is accounted for using equity method
Taiwan Finance Corp.	The investee is accounted for using equity method
Seaward Card Co., Ltd.	The investee is accounted for using equity method

(Continued)

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Indovina Bank	The investee is accounted for using equity method
Gemfor Tech Co.	Their Chairman of the Board is the president of the Bank
China England Company Ltd. and etc.	Investee company of a subsidiary-UWCCB
China Bills Finance Corp.	The investee is accounted for using equity method
Grand Pacific Petrochemical Corp.	Their vice chairman is the Chairman of a subsidiary-UWCCB
Culture and Charity Foundation of the UWCCB	A subsidiary-UWCCB is the major sponsor of the Foundation
The International Commercial Bank of China, and etc.	Former directors or supervisors of a subsidiary-UWCCB (resigned since December 18, 2002 as UWCCB join the Cathay Financial Holding Group)
Wu Ming-Yang	Senior manager of a subsidiary-Cathay Century

(2) *Significant transactions with related parties:*

A. Property Transactions (From related parties):

- a. Transactions between the Company and related parties are real estate, constructions, and lease transactions. The terms of such transactions are based on market surveys, contracts of both parties.

Name	For the years ended December 31, 2002		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Tainan Shopping Center	\$2,184,921	\$62,966
	Cathay General Hospital of Hsinchu	664,310	19,144
	Taitung Building	211,819	6,104
	Lin Yuan Financial building	1,608,917	46,367
	Hsinyi District Base	681,876	19,651
	Other	187,968	5,417
	Sub-total	5,539,811	159,649
Cathay Real Estate Development Co., Ltd.	Other	4,897	141
	Total	\$5,544,708	\$159,790

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Name	For the years ended December 31, 2001		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	The construction build or extend:		
	Kaohsiung International Business Building	\$118,856	\$3,396
	Lin Yuan Financial building	1,282,609	36,646
	Banchian Lin Yuan General Hospital	100,686	2,877
	Tainan Shopping Center	3,226,802	92,194
	Cathay General Hospital of Hsinchu	290,231	8,292
	Taitung Building	116,048	3,316
	Other	198,175	5,662
	Total	\$5,333,407	\$152,383

1. The total amount of construction contracts for real estate on December 31, 2002 and 2001 between the Company and San Ching Engineering Co., Ltd. are \$19,940,725 (US\$574,661) and \$16,867,961 (US\$481,942) respectively. Up to December 31 in 2002 and 2001, \$9,274,524 (US\$267,277) and \$10,589,904 (US\$302,569) had been paid according to the schedule of construction contracts.
 2. In 2002 and 2001, a subsidiary-Cathay Bank engaged San Ching Engineering Co., Ltd. to install office equipment and furniture, and to decorate office buildings and workplaces. The installation fees amounted to NT\$59,129 (US\$1,704) and NT\$3,420 (US\$98) in 2002 and 2001, respectively.
 3. As of December 31, 2002, a subsidiary-UWCCB has paid off NT\$3,000 (US\$86) of contract price for the web design service provided by Gemfor Tech Co.
 4. During 2002, a subsidiary-UWCCB has purchased equipment amounting to NT\$32,881 (US\$948) from Gemfor Tech Co.
 5. A subsidiary-UWCCB has paid the project and construction management services fee to Taiwan Real-estate Management Corp. for NT\$1,665 (US\$48) and NT\$8,721 (US\$251) in 2002 and 2001, respectively.
 6. For the years ended December 31, 2002 and 2001, the Company and the subsidiaries purchased property and investments in real estate without selling them in previous years.
- b. As of December 31, 2002, a subsidiary-UWCCB has received the amount of NT\$9,300 (US\$268) from Seaward Leasing Ltd. for the disposal of the real estate with the contract price of NT\$27,739 (US\$799).

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c. Real-estate rental income from the subsidiaries-Cathay Life and UWCCB:

Name	Rental income			
	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$30,944	\$892	\$32,941	\$941
San Ching Engineering Co., Ltd.	19,962	575	21,018	600
Cathay Securities Investment Trust Co., Ltd.	9,131	263	8,217	235
Cathay General Hospital	156,235	4,502	156,481	4,471
Symphox Information Co., Ltd.	30,735	886	31,947	913
Grand Pacific Petrochemical Corp.	1,121	32	0	0
Lin Yuan Property Management Co., Ltd.	62	2	0	0
Lin Ynan Investment Co., Ltd.	104	3	118	3
Seaward Leasing Ltd.	2,034	59	2,110	60
Culture and Charity Foundation of the UWCCB	500	14	583	17
Total	<u>\$250,828</u>	<u>\$7,228</u>	<u>\$253,415</u>	<u>\$7,240</u>

Name	Guarantee deposits received			
	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2001
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,386	\$357	\$12,386	\$354
San Ching Engineering Co., Ltd.	7,079	204	6,828	195
Cathay General Hospital	1,983	57	1,983	57
Cathay Securities Investment Trust Co., Ltd.	2,144	62	2,060	59
Grand Pacific Petrochemical Corp.	143	4	0	0
Lin Yuan Property Management Co., Ltd.	49	1	0	0
Symphox Information Co., Ltd.	1,421	41	70	2
Lin Ynan Investment Co., Ltd.	16	1	16	1
Total	<u>\$25,221</u>	<u>\$727</u>	<u>\$23,343</u>	<u>\$668</u>

According to previously signed contracts, lease terms with third parties are usually 2 to 5 years; rental collections are received monthly.

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d. Real-estate rental expense from the subsidiaries-Cathay Life and Cathay Bank

Name	Rental Expense			
	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$41,676	\$1,201	\$44,039	\$1,258

Name	Guarantee Deposits paid			
	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2001
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$12,760	\$368	\$405,636	\$11,590

According to contracts, terms of lease from the third party generally expire in 3 years; rentals are paid monthly.

e. Disposal of property and equipment information from the subsidiaries-Cathay Life and Cathay Century:

Name	Item	2002			
		Amount		(Loss) Gain	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Transportation Equipment	\$698	\$20	(\$12)	(\$0)
Lin Yuan Building Management & Maintenance Co., Ltd.	Transportation Equipment	810	23	0	0
	Other equipment	8	0	0	0
Total		\$1,516	\$43	(\$12)	\$0

f. Acquisition of other equipment information from the subsidiaries-Cathay Life and Cathay Century:

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$39,787	\$1,147	\$63,931	\$1,827
San Ching Engineering Co., Ltd.	1,168	34	0	0
Total	\$40,955	\$1,181	\$63,931	\$1,827

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B. Marketable Securities

a. Stock

Name	Item	December 31, 2002		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,700	\$27,000	\$778

Name	Item	December 31, 2001		
		Stocks	Cost	
		(In thousands)	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Taipei Financial Center Corp.	61,724	\$729,573	\$20,845
	SMBC-Cathay Co., Ltd.	20,000	259,200	7,406

b. Beneficiary Certificates:

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$3,856,898	\$111,150	\$2,079,152	\$59,404

C. Deposits

Name	December 31, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay Real Estate Development Co., Ltd.	\$764,777	\$72,903	0~5.10%	\$161

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Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay Real Estate Development Co., Ltd.	\$22,040	\$2,101	0~5.10%	\$5

Name	December 31, 2001			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Cathay Real Estate Development Co., Ltd.	\$966,964	\$118,068	0~5.10%	\$465

Name	December 31, 2001			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Cathay Real Estate Development Co., Ltd.	\$27,628	\$3,373	0~5.10%	\$13

D.Loans

Name	December 31, 2002			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Uni-President	\$500,000	\$500,000	3.00~5.75%	\$25,719

Name	December 31, 2002			
	Maximum Amount US\$	Ending Balance US\$	Rate	Interest Income US\$
Uni-President	\$14,409	\$14,409	3.00~5.75%	\$741

Name	December 31, 2001			
	Maximum Amount NT\$	Ending Balance NT\$	Rate	Interest Income NT\$
Uni-President	\$1,000,000	\$500,000	5.75%	\$33,040

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Name	December 31, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Uni-President	\$28,571	\$14,286	5.75%	\$944

E. Regular Secured Loans

Name	December 31, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	NT\$	NT\$		NT\$
Cathay General Hospital	\$1,174,594	\$1,173,912	4.44%	\$54,685
Wu Ming-Yang	3,309	3,189	4.25%	106
Total		<u>\$1,177,101</u>		<u>\$54,791</u>

Name	December 31, 2002			
	Maximum Amount	Ending Balance	Rate	Interest Income
	US\$	US\$		US\$
Cathay General Hospital	\$33,850	\$33,830	4.44%	\$1,576
Wu Ming-Yang	95	92	4.25%	3
Total		<u>\$33,922</u>		<u>\$1,579</u>

Name	December 31, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	(NT\$)	(NT\$)		(NT\$)
Cathay General Hospital	\$1,175,179	\$1,174,594	5.21%	\$84,370
Wu Ming-Yang	10,000	0	7.20%	592
Total		<u>\$1,174,594</u>		<u>\$84,962</u>

Name	December 31, 2001			
	Maximum Amount	Ending Balance	Rate	Interest Income
	(US\$)	(US\$)		(US\$)
Cathay General Hospital	\$33,577	\$33,560	5.21%	\$2,411
Wu Ming-Yang	286	0	7.20%	17
Total		<u>\$33,560</u>		<u>\$2,428</u>

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F. Notes Receivable

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$35,332	\$1,018	\$23,607	\$674
Symphox Information Co., Ltd.	721	21	0	0
Total	<u>\$36,053</u>	<u>\$1,039</u>	<u>\$23,607</u>	<u>\$674</u>

G. Accounts Payable

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$0	\$0	\$4,983	\$142
Cathay Real Estate Development Co., Ltd.	0	0	320	9
Seaward Card Co., Ltd.	25,500	735	18,464	528
Lin Yuan Property Management Co., Ltd.	491	14	1,018	29
Symphox Information Co., Ltd.	28,428	819	1,422	41
Total	<u>\$54,419</u>	<u>\$1,568</u>	<u>\$26,207</u>	<u>\$749</u>

H. Prepayment

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$159,382	\$4,593	\$0	\$0

I. Premium Revenues

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Name	For the years ended December 31, 2002			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$14,121	\$407	\$872	\$25
Cathay General Hospital	4,480	129	197	6
Others	4,624	133	274	8
Total	\$23,225	\$669	\$1,343	\$39

Name	For the years ended December 31, 2001			
	Direct Written Premiums		Premiums Receivable	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$21,112	\$603	\$1,523	\$44
Cathay General Hospital	4,631	132	957	27
Others	6,090	174	166	5
Total	\$31,833	\$909	\$2,646	\$76

J. Reinsurance Income

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$136,408	\$3,931	\$21,727	\$621

K. Commissions and Handling Fees

Related parties	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Seaward Futures Corp.	\$1,658	\$48	\$1,045	\$30

L. Reinsurance Expense

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Name	For the years ended December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$81,414	\$2,346	\$12,813	\$366

M. Insurance Claims Payment

Name	For the years ended December 31,			
	2002		2001	
	Insurance Claims Payment		Insurance Claims Payment	
	NT\$	US\$	NT\$	US\$
San-Ching Engineering Co., Ltd.	\$51,453	\$1,483	\$8,512	\$243
Cathay General Hospital	3,195	92	178	5
Total	\$54,648	\$1,575	\$8,690	\$248

N. Commissions Expense

Name	For the years ended December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$27,531	\$793	\$0	\$0
Seaward Insurance agent Corp.	63,449	1,829	0	0
Total	\$90,980	\$2,622	\$0	\$0

O. Credit Card Processing Charges

Related parties	For the years ended December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Seaward Card Co., Ltd.	\$261,753	\$7,543	\$174,606	\$4,989

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P. Guarantee Deposit Paid

Name	December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	\$0	\$0	\$600,000	\$17,143
Seaward Leasing Ltd.	42,180	1,216	42,000	1,200
	<u>\$42,180</u>	<u>\$1,216</u>	<u>\$642,000</u>	<u>\$18,343</u>

Q. Donations

Name	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Cathay General Hospital	\$350,000	\$10,086	\$0	\$0
Cathay Life Charity Foundation	-	-	20,000	571
	<u>\$350,000</u>	<u>\$10,086</u>	<u>\$20,000</u>	<u>\$571</u>

R. Other Expense (Marketing Expense)

	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$239,738	\$6,909	\$142,633	\$4,075

S. Repairs And Maintenance (Administrative and general expense)

	For the years ended December 31,			
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2001</u>
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$961,687	\$27,714	\$840,969	\$24,028
Cathay Real Estate Development Co., Ltd.	4,286	124	263	7
Total	<u>\$965,973</u>	<u>\$27,838</u>	<u>\$841,232</u>	<u>\$24,035</u>

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T. Temporary Payments and Suspense accounts

Name	December 31,	
	2002(NT\$)	2002(US\$)
Cathay Securities Investment Co., Ltd.	\$616	\$18

23.Pledged Assets

a. A subsidiary-Cathay Life:

Item	December 31,			
	2002	2002	2001	2001
	NT\$	US\$	NT\$	US\$
Long-term Investment in				
Bonds	\$7,730,262	\$222,774	\$9,045,139	\$258,432
Time Deposits	711,550	20,506	739,850	21,139
Total	\$8,441,812	\$243,280	\$9,784,989	\$279,571

As of December 31, 2002 and 2001, the Company pledged its investments in real estate and time deposits as collateral to the renters. As requested by the tenant, we agree to purchase the time certificates by the security deposit received as a guarantee. In addition, they also served the deposits as a guarantee for the Law court. According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guaranteed deposits.

b. A subsidiary-Cathay Century:

Item	December 31,			
	2002		2001	
	NT\$	US\$	NT\$	US\$
Long-term Investment in Bonds	\$365,199	\$10,524	\$370,115	\$10,575

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(1) According to Article 141, the Insurance Law of R.O.C. the Company should deposited long-term investment in bonds, an amount equal to 15% of it is capital, into the Central Bank of China as capital guarantee deposits.

(2) The pledged assets are disclosed at their net carrying values.

c. A subsidiary-UWCCB

(1) As of December 31, 2001, the certificate of certified deposits amounting NT\$120,000 (US\$3,429), were pledged to other parties for business reserve and guarantees.

(2) Marketable securities of NT\$16,509,096 (US\$475,766) and NT\$1,452,825 (US\$41,509) at December 31, 2002 and 2001, respectively, were pledged to other parties as collateral for business reserves and guarantees.

24.Other Important Matters and Contingent Liabilities

(1) A subsidiary-Cathay Life

Up to the date of December 31, 2002 signed sales contracts and construction contracts of approximately \$ 2,056 million (US\$59 million) dollars, respectively, are still in progress and remain open projects. About \$1,468 million (US\$42 million) dollars had been paid as of December 31,2002.

(2) A subsidiary-Cathay Century

a. A subsidiary-Cathay Century was taken disciplinary action by Tax Authority and requested to pay an overdue add-value tax, NT\$5,535(US\$159), and a fine NT\$55,348(US\$1,585), on July 13, 2000. The Company could not accept this outcome and applied to re-verify but the result was the same. According to Law of Administrative Appeals, Cathay Century appealed against this result on August 23, 2001, and Cathay Century has gotten the finding on September 26, 2002. Pursuant to the Administrative Appeals Commission's decision, the fine has been reversed.

b. A subsidiary-Cathay Century's income tax returns, except 1999, had been filed and assessed by the Tax Authorities until 2000. Cathay Century was requested to pay a tax in the amount of NT\$7,690(US\$222)by the Tax Authorities. Cathay Century has appealed to re-verify.

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- c. By the date of December 31, 2002, Cathay Century had made some significant rental contracts, and based on which, we estimate that the rents for the following 5 years should be as below:

Year	Amount NT\$	Amount US\$
Jan.01, 03 ~Dec.31, 03	\$52,919	\$1,525
Jan.01, 04 ~Dec.31, 04	55,766	1,607
Jan.01, 05 ~Dec.31, 05	57,393	1,654
Jan.01, 06 ~Dec.31, 06	59,070	1,702
Jan.01, 07 ~Dec.31, 07	60,797	1,752
Total	\$285,945	\$8,240

(3) A subsidiary-Cathay Bank

- a. Guarantees on commercial paper issued for customers and loans secured by other banks amounted to NT\$6,095,916 (US\$175,675). The reserve for guarantees amounted to NT\$10,000 (US\$288) and was determined by evaluating the potential losses of total outstanding guarantees issued.
- b. Unused letters of credit which were issued for customers amounted to NT\$563,490 (US\$16,239).
- c. Contracts for the purchase of computer systems and software that were delivered but not yet tested amounted to NT\$278,506 (US\$8,026).
- d. Total repurchase prices of bonds and bills sold under repurchase agreements amounted to NT\$7,927,271 (US\$228,452).
- e. A subsidiary-Cathay Bank entered into certain operating leases for its branch premises (including leasing office premises from related parties; please refer to note 22). As of December 31, 2002, the related refundable deposits amounted to NT\$48,185 (US\$1,389). The estimated future lease payments under the lease contracts were as follows:

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Fiscal Year	Amount	Amount
	NT\$	US\$
Jan.01, 03 ~Dec.31, 03	\$183,919	\$5,300
Jan.01, 04 ~Dec.31, 04	188,819	5,441
Jan.01, 05 ~Dec.31, 05	24,413	704
Jan.01, 06 ~Dec.31, 06	15,588	449
Jan.01, 07 ~Dec.31, 07	99	3
Total	<u>\$412,838</u>	<u>\$11,897</u>

f. Trust fund assets/liabilities

A subsidiary-Cathay Bank is permitted under the Trust Law to engage in the trust operations. As of December 31, 2002 and 2001, the trust fund assets amounted to NT\$5,434,847 (US\$156,624) and NT\$946,075 (US\$27,031).

(4) A subsidiary-UWCCB

As of December 31, 2002, UWCCB had the following commitments and contingent liabilities, which are not, reflected in the abovementioned financial statements:

a. Collection and Guarantee Assets and Liabilities:

	NT\$	US\$
Securities purchased under agreements to resell	\$3,619,162	\$104,299
Securities sold under agreements to repurchase	21,739,849	626,509
Trust and security held for safe keeping (included trustee amount of NT\$16,167,653 (US\$465,927))	406,985,388	11,728,686
Travelers checks for sale	849,809	24,490
Bills for collection	57,785,266	1,665,281
Guarantees on duties and contracts	12,611,743	363,451
Unused commercial letters of credit	1,914,898	55,184
Stamp tax, securities and memorial currency consignments in	4,643	134
Loan commitments	20,365,943	586,915
Credit card lines	34,373,577	990,593

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b. As of December 31, 2001, various lawsuits, claims and proceedings of a nature considered normal to its business are pending against UWCCB, the most significant ones are described below:

- (1) In 1997, the certificate of certified deposit for the amount of \$600 million with Chung Shing Bank requested by Polaris International Securities Investment Trust Co., Ltd. (formerly Chronicle Securities Investment Trust Co., Ltd.) was found to be a forgery made by Mr. Chung-For Su. UWCCB has filed a suit in the higher court to claims for the NT\$600 million (US\$17.29 million).
- (2) In 1996, the clients claimed that UWCCB should be responsible in making restitution for approximately the amount of NT\$24,000 (US\$692) because safe deposits were stolen at Chung-Li Branch. The higher court held UWCCB responsible in making restitution for NT\$12,634 (US\$364). UWCCB is filing for an appeal. The claim is still in the process by the Supreme Court. UWCCB also has filed insurance claims against Taiwan Secom Co., Ltd. related to loss mentioned above.
- (3) In 2001 unauthorized transactions were made by UWCCB's employees for the amount of approximately NT\$60,204 (US\$1,735) and NT\$89,307 (US\$2,574), respectively. UWCCB has held the employee's personal properties or related deposits by the court order or as collateral which maybe sold to cover the loss.

The management believes that the amount of contingent liability, if any, after deducting appropriate reserve with respect to these actions will not materially affect the financial statements of UWCCB.

c. As of December 31, 2001, UWCCB has entered into certain contracts to purchase premises and equipments totaling NT\$717,528 (US\$20,678) with prepayments of NT\$559,050 (US\$16,111).

25.Serious Damages:

The typhoon in September 2001 caused the damages to premises and equipment of UWCCB for approximately NT\$25,153 (US\$725) and to the bonds in custody of UWCCB will have to be replaced for related expenses of approximately NT\$10,000 (US\$288) recognized as miscellaneous NT\$10,000 (US\$288) recognized as miscellaneous non-operating expenses.

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26.Subsequent Events

The Company was discharged 145,674,000 shares and decreased NT\$1,456,740 (US\$41,981) of capital stock on January 13, 2003, pursuant to the provisions of the Stock Exchange Law of R.O.C., approve to the inscription of the MOEA brief introduction on January 24, 2003.

27.Other Important Events

(1) Pension Related Information

A.Cathay Financial Holding

According to the R.O.C. SFAS No.18 "Accounting for Pensions", according to the actuarial report of pension information for the years ended December 31, 2002 and 2001, was as follows:

a. Pension funded status

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
(1) Vested benefit obligation	(378)	(11)	\$0	\$0
(2) Non-vested benefit obligation	(394)	(11)	0	0
(3) Accumulated benefit obligation	(772)	(22)	0	0
(4) Additional benefits based on future salaries	(277)	(8)	0	0
(5) Projected benefit obligation	(1,049)	(30)	0	0
(6) Fair value of plan assets	0	0	0	0
(7) Vested benefit	480	14	0	0
(8) Funded status = (5) + (6)	(1,049)	(30)	0	0
(9) Unrecognized transitional net benefit obligation (net assets)	0	0	0	0
(10) Unrecognized prior service cost	0	0	0	0
(11) Unrecognized pension gain and loss	614	18	0	0
(12) Additional accrued pension liability	(337)	(10)	0	0
(13) (Accrued pension liability) /prepaid pension cost =(8)+(9)+(10)+(11)+(12)	(772)	(22)	\$0	\$0

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b. Actuarial Assumptions

	December 31,	
	2002	2001
(1) Discount rate	4.00%	4.50%
(2) Expected rate of increase in salaries	3.00%	3.00%
(3) Expected long-term rate of return on plan assets	4.00%	4.50%

B.A subsidiary-Cathay Life

a. Pension funded status:

	December 31,			
	2002	2002	2001	2001
	(NT\$)	(US\$)	(NT\$)	(US\$)
(1) Vested benefit obligation	(\$4,719,843)	(\$136,019)	(\$4,275,960)	(\$122,170)
(2) Non-vested benefit obligation	(3,246,744)	(93,566)	(2,770,200)	(79,149)
(3) Accumulated benefit obligation	(7,966,587)	(229,585)	(7,046,160)	(201,319)
(4) Additional benefits based on future salaries	(1,872,973)	(53,976)	(1,723,336)	(49,238)
(5) Projected benefit obligation	(9,839,560)	(283,561)	(8,769,496)	(250,557)
(6) Vested benefit	(7,266,281)	(209,403)	(6,885,074)	(196,716)
(7) Fair value of plan assets	8,171,944	235,503	8,607,006	245,915
(8) Funded status = (5) + (7)	(1,667,616)	(48,058)	(162,490)	(4,642)
(9) Unrecognized transitional net benefit obligation (net assets)	(3,029,591)	(87,308)	(3,408,290)	(97,380)
(10) Unrecognized prior service cost	465,601	13,418	517,334	14,781
(11) Unrecognized pension gain and loss	4,308,536	124,165	3,851,053	110,030
(12) Additional accrued pension liability	0	0	0	0
(13) Accrued pension liability /prepaid pension cost = (8)+(9)+(10)+(11)+(12)	\$76,930	\$2,217	\$797,607	\$22,789

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b. Actuarial assumptions

	December 31,	
	2002	2001
(1) Discount rate	4.00%	4.50%
(2) Rate of increase in future salaries	3.00%	3.00%
(3) Expected return on pension plan Assets	4.00%	4.50%

C.A Subsidiary-Cathay Century

a. Pension funded status:

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
(1) Vested benefit obligation	(\$23,399)	(\$675)	(\$14,292)	(\$408)
(2) Non-vested benefit obligation	(85,163)	(2,454)	(64,298)	(1,837)
(3) Accumulated benefit obligation	(108,562)	(3,129)	(78,590)	(2,245)
(4) Additional benefits based on future salaries	(51,320)	(1,479)	(40,524)	(1,158)
(5) Projected benefit obligation	(159,882)	(4,608)	(119,114)	(3,403)
(6) Fair value of plan assets	103,020	2,969	76,858	2,196
(7) Vested benefit	53,863	1,552	40,554	1,159
(8) Funded status = (5) + (6)	(56,862)	(1,639)	(42,256)	(1,207)
(9) Unrecognized transitional net benefit obligation (net assets)	9,284	268	9,863	282
(10) Unrecognized prior service cost	0	0	0	0
(11) Unrecognized pension gain and loss	47,578	1,371	32,393	925
(12) Additional accrued pension liability	(5,542)	(160)	(1,733)	(50)
(13) Accrued pension liability /prepaid pension cost=(8)+(9)+(10)+(11)+(12)	(\$5,542)	(\$160)	(\$1,733)	(\$50)

b. Net periodic pension cost:

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	For the years ended December 31,			
	2002(NT\$)	2002(US\$)	2000(NT\$)	2001(US\$)
(1) Service cost	\$22,633	\$652	\$16,696	\$477
(2) Interest cost	5,310	153	4,591	131
(3) Projected return on plan assets	(4,031)	(116)	(4,550)	(130)
(4) Amortization of unrealized transit on obligation (asset)	580	17	580	17
(5) Amortization of prior service cost	0	0	0	0
(6) Amortization of gain or loss	1,024	30	0	0
(7) Net periodic pension cost	<u>\$25,516</u>	<u>\$736</u>	<u>\$17,317</u>	<u>\$495</u>

c. Actuarial assumptions

(1) Discount rate	4.30%	4.50%
(2) Rate of increase in future salaries	1.08% ~ 8.69%	1.08% ~ 8.69%
(3) Expected return on pension plan assets	4.30%	4.50%

D.A Subsidiary-Cathay Bank

a. Pension funded status:

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Benefit Obligations:				
Vested benefit obligations	(\$100,097)	(\$2,884)	(\$79,328)	(2,267)
Non-vested benefit obligations	(80,011)	(2,306)	(51,342)	(1,466)
Accumulated benefit obligations	(180,108)	(5,190)	(130,670)	(3,733)
Additional based on future salaries	(32,320)	(932)	(37,240)	(1,064)
Projected benefit obligations	(212,428)	(6,122)	(167,910)	(4,797)
Fair value of pensions assets	241,715	6,966	214,492	6,128
Funding status	29,287	844	46,582	1,331
Unrecognized net loss (gain)	1,052	30	(13,909)	(397)
Unrecognized net transition assets	(30,339)	(874)	(32,673)	(934)
Accrued pension liability	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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Vested benefits of employees who are qualified to receive retirement benefits as of December 31, 2002 and 2001, amounted to NT\$197,359 (US\$5,688) and NT\$162,898 (US\$4,654), respectively.

b. Net periodic pension cost:

	For the years ended December 31,			
	<u>2002(NT\$)</u>	<u>2002(US\$)</u>	<u>2001(NT\$)</u>	<u>2001(US\$)</u>
Service cost	\$ 32,445	935	28,791	823
Interest cost	7,463	215	8,579	245
Actual return on plan funds	(5,211)	(150)	(9,279)	(265)
Amortization and deferral	<u>(6,910)</u>	<u>(199)</u>	<u>(5,196)</u>	<u>(149)</u>
Net periodic pensions cost	<u>27,787</u>	<u>801</u>	<u>22,895</u>	<u>654</u>

Actuarial assumptions:

	2002	2001
Discount rate	3.75%	4.50%
Expected rate of increase in salaries	1.00%	1.50%
Expected long-term rate of return on plan assets	3.75%	4.50%

The actual payment of pensions for 2002 and 2001 amounted to NT\$5,775 (US\$166) and NT\$10,127 (US\$289), respectively.

E. A Subsidiary-UWCCB

a. Pension funded status:

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	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Pension benefit obligation				
Vested	\$(462,135)	\$(13,318)	\$(569,434)	\$(16,269)
Non-vested	<u>(1,359,971)</u>	<u>(39,192)</u>	<u>(1,209,519)</u>	<u>(34,558)</u>
Accumulated benefit obligation	(1,822,106)	(52,510)	(1,778,953)	(50,827)
Value of future salary projections	(1,310,680)	(37,772)	(1,850,492)	(52,872)
Projected benefit obligation	<u>(3,132,786)</u>	<u>(90,282)</u>	<u>(3,629,445)</u>	<u>(103,699)</u>
Fair value of plan assets	2,115,712	60,972	2,901,879	82,911
Projected benefit obligation in excess of plan assets	<u>(1,017,074)</u>	<u>(29,310)</u>	<u>(727,566)</u>	<u>(20,788)</u>
Unrecognized net obligation at transition	278,659	8,030	313,491	8,957
Unrecognized net loss	<u>738,415</u>	<u>21,280</u>	<u>414,075</u>	<u>11,831</u>
Prepaid pension cost	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The actuarial assumptions used are:

	Dec. 31, 2002	Dec. 31, 2001
Discount rate	3.5%	5%
Growth rate in compensation levels	3.5%	5%
Expected long-term rate of return on plan assets	3.5%	5%

As of December 31, 2002 and 2001, the vested benefit, based on UWCCB's pension plan, amounted to NT\$557,065 (US\$16,054) and NT\$774,227 (US\$22,121), respectively.

b. Net periodic pension cost:

	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Service cost	\$241,665	\$6,964	\$248,563	\$7,102
Interest cost	153,972	4,437	177,115	5,060
Expected return on plan assets	(125,279)	(3,610)	(161,281)	(4,608)
Net amortization	<u>37,055</u>	<u>1,068</u>	<u>34,832</u>	<u>995</u>
Net pension expenses	<u>\$307,413</u>	<u>\$8,859</u>	<u>\$299,229</u>	<u>\$8,549</u>

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(2) Derivative Financial Instruments Related Information

A. Cathay Financial Holding

a. Credit and Market Risk

The Company entered into forward contract with financial institution, with good credit. Losses incurred from exchange rate fluctuations can be offset by forward hedging contracts.

b. Cash Flow and Demand

As there will be cash inflow and cash outflow on the expiration date of a forward contract, no demand for substantial cash flow is expected.

c. Forward Contract

(a) Receivables and payables resulting from forward contract are offset. The differences between receivables and payables should be listed as assets or liabilities.

(b) As of December 31, 2002, the Company has forward exchange contract (the contract) of approximately US\$700,000. And the forward exchange contract period is from May 20, 2002 to May 20, 2007.

(c) As of December 31, 2002, the exchange rate of the contract is over and the foreign exchange loss is NT\$54,309 (US\$1,565). It will be amortized by three years.

d. Foreign Currency Options

As of December 31, 2002:

Counterpart	Effective Date	Put Date	Amount (in thousands of dollars)
Goldman Sachs International	2002.5.20	2005.5.20; 2007.5.20	US\$700,000

B. A Subsidiary-Cathay Life

a. Credit and Market Risk

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The Company entered into forward contracts with financial institutions, with good credit. In addition, the Company entered into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

b. Cash Flow and Demand

As there will be cash inflow and cash outflow on the expiration date of a forward contract, no demand for substantial cash flow is expected.

c. Futures

All futures transaction had offset on December 31, 2002.

d. Forward Contract

(d) Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

(e) As of December 31, 2002 and 2001, the Company has forward exchange contracts of approximately US\$3,790,000 and US\$1,069,000 respectively in notional value.

e. Interest Rate Swap Agreement (IRS)

The IRS agreement is applied to hedging the fluctuation risk in interest rate with several banks. The floating exchange rate is used in place of the fixed exchange rate for hedging the interest risk. As of December 31, 2002. The agreements of IRS are summarized as following:

Category	Currency	Period	Amount
IRS	NT	2002.05.02~2009.12.16	\$24,200,000 (US\$697,406)

C.A subsidiary-Cathay Century

a. Credit and Market Risk

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The Company entered into forward contracts with financial institutions, with good credit. In addition, the Company entered into contracts with many financial institutions to hedge risk. Forward hedging contracts can offset losses incurred from exchange rate fluctuation.

b. Cash Flow and Demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward contract, no demand for substantial cash flow is expected.

c. Forward Contract

(a) Receivables and payables resulting from forward contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

(b) As of December 31, 2002 and 2001, the Company has forward exchange contracts of approximately US\$11,600 and \$0 respectively in notional value.

D.A Subsidiary-Cathay Bank

a. Foreign exchange forward and swap contracts

Cathay Bank entered into foreign exchange forward and swaps contracts for the purpose of foreign exchange currency demand. The foreign exchange forward and swap contracts are recorded at acquisition cost and valued at the spot currency rate on the balance sheet date. As of December 31, 2002, receivables and payables resulting from foreign exchange forward and swap contracts, which are recorded at net payable amount, amounted to NT\$1,127 (US\$32). As of December 31, 2002, the unsettled balance of foreign exchange forward and swap contracts amounted to US\$54,537, JP ¥860,170, EUR £3,500 and HK\$1,600, with maturity dates from January 1, 2003 to June 12, 2003.

Credit risk arises when the transaction counterparty fails to execute the contract obligation. When the derivative financial instruments are profitable, credit risk increases. To effectively lower credit risk, Cathay Bank takes the same policy as for loans, and sets credit limits and limits its selection of counterparties to

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those with high credit ratings. Because the counterparties of foreign forward contracts are international banking institutions with high credit ratings, the possibility of breaking a contract is very low.

Market risk is the possible loss arising from the changes in market interest rates or exchange rates. To reduce interest and exchange rate exposures, Cathay Bank has maintained the net foreign currency positions within certain limits to reduce market risk.

Liquidity risk arises when the contract cannot be cleared in the anticipated time period. Cathay Bank monitors liquidity risk by requiring credit authorization, setting position limits, maintaining stop-loss levels and using internal control procedures. To manage adverse movements in interest rates and foreign exchange rates, Cathay Bank has diversified its selection of currencies to those with high liquidity (primarily the US dollar, Euro, Canadian dollar, and Japanese Yen) for interest rate and foreign exchange contracts held or issued.

b. Options

Cathay Bank engaged in option transactions to comply with the new business of combined foreign currency deposits. Depositors include savings deposit clients and internationally well-known banks, which have to qualify under the risk management assessment of Cathay Bank. The deposit clients are those who deposit their principal in Cathay Bank and use the interest earned to buy the options. Therefore, credit risk is very low. In order to eliminate the potential market risk, Cathay Bank will buy opposite options at the same time the clients buy their options.

c. As of December 31, 2002, the nominal principal and fair value of derivative contracts which had not matured were as follows:

	December 31, 2002			
	Nominal principal		Fair value	
	NT\$	US\$	NT\$	US\$
For trading purposes				
Foreign exchange forward				
and swap contracts	\$ 2,407,785	69,389	(1,390)	(40)
Options	179,686	5,178	0	0

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E. A Subsidiary-UWCCB

In a normal course of business, UWCCB is a party to a variety of off-balance-sheet and derivative instruments including forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps. These financial instruments involve to varying degrees of risks. These transactions are typically customer-driven and are not for trading purpose. The related in formations are as follows:

a. Notional and Credit Risk Amounts for Derivative Financial Instruments (In thousands of US Dollars)

	December 31, 2002		December 31, 2001	
	Notional Amount	Credit Risk	Notional Amount	Credit Risk
Derivative Financial Instruments				
Foreign Exchange Contracts				
Forward Contracts				
Commitments to purchase	\$303,249	\$1,426	\$136,345	\$305
Commitments to sell	456,145	12,687	181,723	4,594
Interest Rate Contract, Interest rate swaps	177,050	7,460	168,668	993
Cross-currency interest rate swaps	87,510	782	105,398	1,787

Credit risk is the possibility of loss if a counter party fails to fully perform under the term of a derivative financial instrument. The above amount of credit risk represents that UWCCB would suffer if counter parties failed to perform according to the terms of the contract after the effects of master netting agreements. Credit risk is calculated based on the positive amount at yearend.

Foreign exchange contracts constitute agreements to exchange designated currencies at specified date at a predetermined price. UWCCB enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions and are deemed necessary over the life of the contract to reduce UWCCB's credit exposure on these position.

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Interest rate swaps entered into by UWCCB with remaining maturities range from five months to approximately six years and five months December 31, 2002 represents agreements between two parties to exchange periodic interest payments, most often fixed vs. floating, are based on a notional principal amount. Cross-currency interest rate swaps entered into by the Bank, which have remaining maturities from four months to three years and one month on December 31, 2002 involve an exchange of principal balance denominated in two different currencies at the inception of the contract, exchange of interest payments during the life of the contract, and reexchange of the principal balance at a specified future date. The above nontrading swap transactions are used to hedge UWCCB's balance sheet position of foreign marketable securities, foreign certified deposits and foreign liquidity gap, since the swap contracts entered into by UWCCB are made with major international financial institutions only within approved credit limits based on each financial institution's world ranking and credit rating. Therefore, the risk associated with these swap contracts is limited to a less extent.

To limit the credit exposure arising from option transaction, UWCCB maintains its transactions with counterparty who have deposit in UWCCB on major financial institutions. Consequently, UWCCB does not anticipate any significant loss due to credit risk.

b. Market Risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. Market risk includes interest rate risk, equity price risk and foreign exchange rate risk. The related risks for UWCCB's derivative financial instruments are as follows: (In thousands of US Dollars)

Items	Dec. 31, 2002	Dec. 31, 2001
Interest rate risk	\$761,066	\$38,203
Foreign exchange risk	274,550	179,528

The overall value of marker risk of UWCCB's derivative financial instruments is less than the accumulated value of the above risks.

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c. Liquidity Risk, Cash Flow Risk and the Uncertainty of Amount and Period of Future Cash Flow

The table below summarizes the expected cash outflow for UWCCB's derivative financial instrument activities: (In thousands of US Dollars)

Period	Dec. 31, 2002	Dec. 31, 2001
0-1 year	\$1,871	\$1,753
1-2 year	1,434	951
2-3 year	1,434	589
3-4 year	1,235	543
4 year	966	474

The uncertainty of the fluctuation for future interest rate and foreign exchange rate will affect the amount of the above expected cash outflow. The longer time frame is the more uncertainty will be.

The liquidity of forward exchange contracts, which are entered by UWCCB with customers, could be low. However, UWCCB provides this financial instrument to its customers as a hedge instrument and also requires customers to provide the related trading documents to execute the trade. Since UWCCB and customers both commit to perform according to the term of forward exchange contract, the liquidity risk of the forward exchange contract should be immaterial. In the meantime, UWCCB also enters forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell forward exchange contracts at any time on secondary market. Though the liquidity of interest rate swaps and cross-currency interest rate swaps is not high, the liquidity risk associated with these financial instruments should be limited to less extent because most of the trading participants will hold these financial statements to maturity.

A summary of the notional amount of UWCCB's liquidity risk related to derivative financial instruments outstanding appears in the table below: (In thousands of US Dollars)

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Items	Notional Amount	
	Dec. 31, 2002	Dec. 31, 2001
Interest rate swaps	\$177,050	\$168,668
Cross-currency interest rate swaps	87,510	105,398

- d. The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

Assets and liabilities arising from trading forward contracts are recorded at the contract forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited or charged to income. At balance-sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward available for the remaining period of each contract and the contracted forward rate are credited or charged to income. The balance of account receivable and payable caused by forward contracts are netted on the balance-sheet date, and the difference are treated as an asset or liability.

The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid which was calculated by fixed vs. floating is recorded as adjustment of interest income.

Assets and liabilities caused by cross-currency interest rate swaps are recorded at the agree-upon forward rate. The differential to be received or paid is recorded as adjustment of interest income.

For options contracts only memorandum entries of notional principle are made on the contract date. Gains or losses on exercise of the option are credited to or charged again current income. At balance sheet dates, options are marked to market and the resulting gains or losses are recognized currently.

- e. Off-Balance-Sheet Credit Risk

UWCCB entered into certain transaction with customers to repurchase or resell securities or short-term notes for business purpose. UWCCB also provides a various type of loans and credit card services. The term for the related loans is various and depends on the credit status of the borrowers. The interest rate for credit card loans are in 19.7%. UWCCB also provides guarantees for loans and

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commercial letters of credit services. These guarantees represent an irrevocable obligation to pay a third-party beneficiary in the event a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

A summary of the contract amount of each significant class of off-balance-sheet credit related financial instruments outstanding appear in the table below:

Items	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Securities purchase under agreements to resell	\$3,619,162	\$104,299	\$20,743,688	\$592,677
Securities sold under agreements to repurchase	21,739,849	626,509	15,867,953	453,371
Loan commitments	20,365,943	586,915	28,729,959	820,856
Credit card lines	34,373,577	990,593	23,819,280	680,551
Guaranty and Commercial letters of credit	14,526,641	418,635	27,887,125	796,775

These financial instruments will not be fully paid before maturity. Therefore, the total contract amount of these contracts does not necessarily represent future cash requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments approximate to those contractual amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

UWCCB conducts a strict policy to evaluate customers' credit status when provided securities sold under agreements to repurchase, securities purchase under agreements to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loan and UWCCB retains the legal right to foreclose or liquidated the collateral. Generally, these collateral include cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancel by UWCCB after periodically review of customers' credit status.

(3) Non Derivative Financial Instruments related information

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A.A Subsidiary-Cathay Life

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of December 31, 2002 and 2001, is the same as the estimated fair market value:

Item	December 31,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$282,304,744	\$282,304,744	\$8,135,583	\$8,135,583

Item	December 31,			
	<u>2001</u>		<u>2001</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$215,705,693	\$215,705,693	\$6,163,020	\$6,163,020

B.A Subsidiary-Cathay Century

Except for the item listed in the following table, the book value of Non Derivative Financial Instruments as of December 31, 2002 and 2001, is the same as the estimated fair market value:

Item	December 31,			
	<u>2002</u>		<u>2002</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$ 2,063,054	\$2,172,225	\$59,454	\$62,600

Item	December 31,			
	<u>2001</u>		<u>2001</u>	
	NT\$		US\$	
	Book Value	Fair Value	Book Value	Fair Value
Shot-term Investment	\$2,185,214	\$2,185,214	\$62,435	\$62,435

C.A Subsidiary-Cathay Bank

- a. Estimated fair values of the Bank's financial instruments

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The book values and the estimated fair values of Cathay Bank's financial instruments were as follows:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	NT\$	NT\$	NT\$	NT\$
Financial assets:				
Cash and due from banks	\$ 9,189,451	9,189,451	14,019,120	14,019,120
Due from Central Bank	11,645,740	11,734,851	9,386,515	9,405,955
Bills and securities purchased, net	6,698,083	6,698,083	2,888,419	2,888,419
Receivables	21,199,574	21,199,574	12,465,738	12,465,738
Loans and exchange bills negotiated and discounted	110,364,439	110,364,439	106,276,766	106,276,766
Long-term investment	5,303,964	5,389,087	3,376,762	3,337,099
Other assets	8,564,256	8,596,358	4,129,654	4,130,366
Financial liabilities:				
Due to banks	1,715,172	1,715,172	782,953	782,953
Accrued expenses	4,730,370	4,728,980	3,451,505	3,445,810
Deposits and remittances payable	158,622,263	158,622,263	139,073,795	139,073,795
Other liabilities	153,704	153,704	134,077	134,077
Off-balance-sheet financial instruments:				
Guarantees on loans and letters of credit	-	6,095,916	-	7,420,059

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
	US\$	US\$	US\$	US\$
Financial assets:				
Cash and due from banks	\$ 264,826	264,826	400,546	400,546
Due from Central Bank	335,612	338,180	268,186	268,742
Bills and securities purchased, net	193,028	193,028	82,526	82,526
Receivables	610,939	610,939	356,164	356,164
Loans and exchange bills negotiated and discounted	3,180,531	3,180,531	3,036,479	3,036,479
Long-term investment	152,852	155,305	96,479	95,346
Other assets	246,809	247,734	117,990	118,010
Financial liabilities:				
Due to banks	49,428	49,428	22,370	22,370
Accrued expenses	136,322	136,282	98,614	98,614
Deposits and remittances payable	4,571,247	4,571,247	3,973,537	3,973,537
Other liabilities	4,430	4,430	3,831	3,831
Off-balance-sheet financial instruments:				
Guarantees on loans and letters of credit	-	175,675	-	212,002

The following methods and assumptions were used to estimate the fair values of financial instruments.

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- (i) The book value reported in the balance sheet for short-term financial instruments approximates the fair value due to their short period to maturity or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash, due from banks, call loans to banks, deposit reserve in due from Central Bank, receivables, other assets (excluding delinquent loans) and accrued expenses, and other liabilities.
 - (ii) The fair values of bills and securities purchased and of deposit reserves for trust funds in the form of securities and of other assets are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on financial or other information.
 - (iii) Loans and exchange bills negotiated and discounted (including delinquent loans of other assets), due to banks, and deposits are the interest-bearing financial assets and liabilities. Their book value approximates fair value.
 - (iv) The fair values of financial guarantees are based on the contract value.
- b. Financial instruments with off-balance-sheet credit risk

By engaging in the business of loans and issuing credit cards, Cathay Bank holds large credit commitments. During 2002 and 2001, according to the different types of the loans, the interest rates on loans ranged from 2.44% to 12.47% and 5.16% to 16.79%, respectively. The maximum credit card interest rate at the reporting date was 19.89%. Cathay Bank also provided guarantees and letters of credit to guarantee customers' performance of obligations to third parties. These agreements generally extend for up to one year. Expirations are not concentrated in any period.

Most of the contracts are expected to expire without any payment by Cathay Bank, and accordingly, the total contractual amounts do not necessarily represent future cash payments. The future cash flow requirement will be less than the contract amount. The maximum loss on each guarantee is equal to the contractual amount, which does not consider the value of any collateral.

Cathay Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. As of December 31, 2002 and 2001, the ratio of secured loans to total loans (excluding credit card operations) was 78.77% and 80.58%, respectively, and the extent of collateral held for guarantees and letters of credit was 34.49% and

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44.64%, respectively. Collateral for loans, guarantees, and letters of credit is usually in the form of time deposits, marketable securities, real estate, or other property. When customers are in default, Cathay Bank can forcibly execute its related collateral or security rights.

Credit card commitments are unsecured. Periodic review of cardholders' credit status is performed to adjust card limits if necessary.

Investment in CLN and CCN required strict credit assessment. It is based on the financial institutions with sound finance and good reputation, or the linked investing objectives ranked with "long-term bond rating BBB- grade" and "short-term bond rating A-3 grade" above assessed by Standard & Poor's Corporation or with "long-term bond rating Baa3 grade" and "short-term bond rating P-3 grade" above assessed by Moody's Investor Service. The credit ratings of mentioned investing objectives were all above the grades and no material credit risk existed during 2002. The Bank has been periodically assessing the credit and financial position of the issuers and the linked investing objectives. When credit risks arise, the Bank may take necessary action, or execute its investments.

c. Information on concentrations of credit risk

The concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for individuals or groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Cathay Bank does not have material concentrations of credit risk with respect to any individual customer or counterparty but is exposed to counterparty default with respect to its portfolio concentrations in certain industries. The information on concentrations of credit risk of more than 10% of Cathay Bank's loan balance by industry is as follows:

	December 31, 2002		December 31, 2001	
	<u>NT\$</u>	US\$	<u>NT\$</u>	US\$
Manufacturing	\$ 15,344,404	442,202	16,491,872	471,196
Real estate and lease	15,600,693	449,588	17,125,564	489,302
Others (less than 10% of loans)	<u>80,090,149</u>	<u>2,308,073</u>	<u>73,925,518</u>	<u>2,112,158</u>
	<u>\$ 111,035,246</u>	<u>3,199,863</u>	<u>107,542,954</u>	<u>3,072,656</u>

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The credit risk amounts represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The collateral requirements for loans are described in paragraph (b).

D.A subsidiary-UWCCB

a. Fair Value of Financial Instruments

As of December 31, 2002 and 2001, except for the table summarize below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximately equal to their carrying values: (In thousands of New Taiwan Dollars)

Financial Assets	Dec. 31, 2002(NT\$)		Dec. 31, 2002(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities	\$119,821,935	\$121,285,506	\$3,453,082	\$3,495,260
Long-term investments	12,153,144	12,348,770	350,235	355,872

Financial Assets	Dec. 31, 2001(NT\$)		Dec. 31, 2001(US\$)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Marketable securities	\$149,006,489	\$150,516,120	\$4,257,328	\$4,300,461
Long-term investments	12,577,702	12,610,290	359,363	360,294

Fair value amounts of marketable securities and long-term investments were based on quoted market price, if available. If quoted market prices did not exist, fair values were estimated according to book value or other financial resources.

b. Others

(1) Concentration Aggregation of Credit Risk

When counter parties of financial instrument transactions are significantly concentrated on one particular person or most of the counter parties perform the similar business or have the similar business characteristic, UWCCB is exposed to credit risk while counter parties fail to live up the terms of the contract under certain economic circumstances. UWCCB mitigates the above risk by diversifying counter parties and customers. The below table summarizes the above risk by type of industry and geographic region: (In thousands of New Taiwan Dollars)

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Items	December 31,			
	2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
Loans, discounts, bill purchased, customers' account liabilities under acceptances and guarantees account				
Geographic Region				
Domestic	\$391,855,681	\$11,292,671	\$435,550,138	\$12,444,289
South East Asia	9,474,148	273,030	8,337,174	238,205
North East Asia	417,710	12,038	1,057,514	30,215
North America	6,602,262	190,267	6,261,143	178,890
Others	5,730,178	165,135	7,471,770	213,479
Total	<u>\$414,079,979</u>	<u>\$11,933,141</u>	<u>\$458,677,739</u>	<u>\$13,105,078</u>
Industry type				
Manufacturing	\$52,138,298	\$1,502,545	\$56,868,553	\$1,624,816
Financial institutions and insurer	25,815,297	743,957	28,682,013	819,486
Leasing and real estate	66,797,682	1,925,005	89,175,121	2,547,861
Individuals	166,615,700	4,801,605	176,117,185	5,031,919
Others	102,713,002	2,960,029	107,834,867	3,080,996
Total	<u>\$414,079,979</u>	<u>\$11,933,141</u>	<u>\$458,677,739</u>	<u>\$13,105,078</u>
Credit Card				
Gold card	\$8,596,710	\$247,744	\$7,496,612	\$214,189
Regular card	2,589,786	74,633	1,825,852	52,167
Total	<u>\$11,186,496</u>	<u>\$322,377</u>	<u>\$9,322,464</u>	<u>\$266,356</u>

The amount of possible losses for the above credit related loan approximated to those notional amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

(4) Discretionary Account Management

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A. The Subsidiary-Cathay Life

Item	December 31, 2002			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,000,211	\$28,824	\$936,044	\$26,975
Repurchase bonds	5,077,614	146,329	5,077,614	146,329
Short-term securities	216,680	6,244	216,680	6,244
Bonds	907,013	26,139	975,373	28,109
Cash in bank	297,639	8,578	297,639	8,578
Net other assets less liabilities	(10,009)	(288)	(10,009)	(288)
Total	<u>\$7,489,148</u>	<u>\$215,826</u>	<u>\$7,493,341</u>	<u>\$215,947</u>

Item	December 31, 2001			
	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Stocks	\$1,818,459	\$51,956	\$1,915,431	\$54,727
Short-term securities	675,434	19,298	675,434	19,298
Time deposit	100,000	2,857	100,000	2,857
Cash in bank	564,218	16,121	564,218	16,120
Net other assets less liabilities	3,046	87	3,046	87
Total	<u>\$3,161,157</u>	<u>\$90,319</u>	<u>\$3,258,129</u>	<u>\$93,089</u>

B. The Subsidiary-Cathay Century

Item	Book Value		Fair Value	
	NT\$	US\$	NT\$	US\$
Listed Stocks	\$15,348	\$442	\$15,088	\$435
Cash in bank	76,985	2,219	76,985	2,219
Net other assets less liabilities	(104)	(3)	(104)	(3)
Total	<u>\$92,229</u>	<u>\$2,658</u>	<u>\$91,969</u>	<u>\$2,651</u>

2001 Year: None.

(5) Zero Coupon Convertible Notes Related Information:

Issuer: Cathay Financial Holding Co., Ltd., a financial holding company organized under the R.O.C. Financial Holding Company Act and the R.O.C. Company Law. Cathay Financial Holdings' registration number issued by the R.O.C. Ministry of Economic Affairs is 118958.

Offering: The Purchaser outside the United States is offering The International Notes

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in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). Goldman Sachs International is offering the Rule 144A Notes concurrently in the United States through its selling agent, only to institutions that are qualified institutional buyers or QIBs (as defined in Rule 144A).

Issue Price: 100%.

Maturity Date: May 20, 2007.

Over-allotment Option:

Cathay Financial Holdings has granted to the Purchaser an option exercisable within 30 days from May 20, 2002 to purchase up to an additional US\$150,000 aggregate principal amount of Notes, solely to cover over-allotments, if any, please refer to "Plan of Distribution". In the event that the Purchaser exercises the over-allotment option, Cathay Financial Holdings will promptly inform the Luxembourg Stock Exchange.

Interest:

The Notes will not bear interest except in the limited circumstances set out under "Description of the Notes – Default Interest".

Conversion Rights:

Subject to certain conditions, each holder of the Notes (the "Holder") will have the right during the Conversion Period (as defined herein) to convert its Notes (or any portion thereof being US\$1,000 dollars in principal amount or an integral multiple thereof) into Common Shares and, upon conversion may, subject to compliance with the terms and conditions of the applicable Deposit Agreement, direct that the Common Shares deliverable upon conversion be deposited with the Depository (as defined herein) for issuance of GDSs, *provided, however*, that the Conversion Right during any Closed Period (as defined herein) shall be suspended and the Conversion Period shall not include any such Closed Period. See "Description of the Notes – Conversion" and "Risk Factors – Risks Relating to the Notes-There are limitations on your ability to exercise conversion rights". Cathay Financial Holdings shall as soon as practicable but in no event more than five Trading Days (as defined herein) from the Conversion Date (as defined herein) deliver Common Shares to the converting Holders or the Depository, as the case may be.

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Repurchase at the Option of the Holder:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's Notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium. "Redemption Premium" means an amount payable pursuant to the Notes with respect to a repurchase or redemption of a Note that will provide a Note holder who purchased such Note at the Issue Price on the Original Issue Date (as defined herein) a compound yield of 2.75% per annum (computed on a semi-annual note equivalent basis). See "Description of the Notes – Repurchase of the Notes".

Repurchase in the Event of Desisting:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, in the event that the Common Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium. See "Description of the Notes – Repurchase of the Notes".

Repurchase in the Event of Change of Control:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder's option, to require Cathay Financial Holdings to repurchase all (or any portion of the principal amount thereof which is US\$1,000 dollars or any integral multiple thereof) of such Holder's Notes at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium, upon the occurrence of a Change of Control (as defined herein). See "Description of the Notes – Repurchase of the Notes".

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Redemption at the Option of Cathay Financial Holdings:

The Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at any time on or after May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on the Redemption Date (as defined herein); *provided* that (a) the Closing Price (translated into US dollars at the prevailing rate) of the Common Shares for a period of 30 consecutive Trading Days (including Trading Days that fall within a Closed Period), the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the Conversion Price (translated into US dollars at the Exchange Rate, as defined herein) and (b) the applicable Redemption Date does not fall within a Closed Period. Notwithstanding the foregoing, Cathay Financial Holdings may redeem, in whole but not in part, the Notes at any time, on not less than 30 nor more than 60 days' notice, if at least 90% in principal amount of the Notes originally outstanding have been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on the Redemption Date; *provided* that the applicable Redemption Date does not fall within a Closed Period.

Tax Redemption:

If, as a result of certain changes relating to the tax laws in the R.O.C. or such other jurisdiction in which Cathay Financial Holdings is then organized, Cathay Financial Holdings becomes obligated to pay certain Additional Amounts (as defined herein), the Notes may be redeemed at the option of Cathay Financial Holdings, in whole but not in part, at a price equal to 100% of the outstanding principal amount thereof plus the Redemption Premium on such Redemption Date.

Redemption Amount at Maturity:

Unless the Notes have been previously redeemed, repurchased and cancelled, or converted, Cathay Financial Holdings will redeem the Notes on the Maturity Date (as defined herein) at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium.

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Negative Pledge:

Subject to certain exceptions, Cathay Financial Holdings will not, and will procure that none of its Principal Subsidiaries (as defined herein) will, create or permit to subsist any Lien (as defined herein) to secure for the benefit of the holders of any International Investment Securities (as defined herein) any sum owing in respect thereof or any guarantee or indemnity thereof without making effective provision to secure the Notes (a) equally and ratably with such International Investment Securities with a similar Lien or (b) with such other security as shall be approved by Holders of not less than a majority in aggregate principal amount of the outstanding Notes. See "Description of the Notes-Certain Covenants-Negative Pledge".

Further Issues:

Cathay Financial Holdings may from time to time without the consent of the Holders of the Notes create and issue further securities having the same terms and conditions as the Notes in all respects so that such further issue shall be consolidated and form a single series with the respective Notes.

Governing Law:

The Indenture, the Notes and the Deposit Agreements will be governed by, and construed in accordance with, the laws of the State of New York.

Listing:

Application has been made to list the International Notes on the Luxembourg Stock Exchange and to designate the Rule 144A Notes for trading on PORTAL in the United States. Application has been made to have the International GDSs issuable upon conversion of the Notes listed on the Luxembourg Stock Exchange.

Trading Market for the Common Shares:

The only trading market for the Common Shares is the Taiwan Stock Exchange. The Common Shares have been listed on the Taiwan Stock Exchange since December 31, 2001.

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(6) Capital Adequacy Ratio:

A. As of December 31, 2002 the consolidated capital adequacy ratio was 190.08%.

B. A subsidiary-Cathay Bank

In order to enhance the banking financial structure, the ROC Banking Law and related regulations required that the ratio of banking capital to risk assets should not be lower than 8% (BIS); otherwise, the authority will be able to restrict the distribution of earnings. As of December 31, 2002 and 2001, the BIS ratio was 9.10% and 9.47%, respectively.

C. A subsidiary-UWCCB

a. Pursuant to the regulations of Banking Law, in order to provide for a sound financial position for banks, the ratio of bank's shareholders' equity to its risk weighted assets shall not be less than 8%; if the said ratio is less than the prescribed ratio, UWCCB power to distribute surplus profits may be restricted by the authority in charge.

b. As of December 31, 2002 and 2001 the ratio of UWCCB's shareholders equity to its risk weighted assets were 11.44% and 10.40, respectively.

(7) Material Contract: None.

(8) Others

A. A subsidiary-Cathay Life

On December 25, 2002, the investment commission of the Ministry of Economic Affairs has approved our company to remit US \$22,850 as the capital of investment in order to found a new company called Guangzhou Cathay life insurance Co., Ltd. However, we are only in the preparatory stage and have not yet invested substantially.

B. A subsidiary-Cathay Bank

To expand Cathay Bank's credit card business, Cathay Bank entered into a strategic alliance agreement with Pacific SOGO Department Store Co. Ltd. (SOGO) to issue Cathay United Bank and Pacific SOGO affinity credit cards (affinity credit cards). Cathay Bank paid a conversion fee for converting the original SOGO debit cards to affinity credit cards. The cost calculated based on the anticipated conversion

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volume of original SOGO debit cards to affinity cards amounted to NT\$840,000 (US\$24,207) and is amortized over the estimated economic lives of four years from 2002.

C. A subsidiary-UWCCB

- a. In order to mitigate future delinquencies, on June 10, 2002, the board of directors has reach an agreement of selling non-performing loans for the amount of approximately NT\$8,000,000 (US\$230,548) in total, which includes loans amount of approximately NT\$4,600,000 (US\$132,565) and uncollectible receivable principle and interest for the amount of approximately NT\$3,400,000 (US\$97,983). UWCCB enters into the contract with China Development Assets Management Corp. (buyer) to transfer the non-performing loans on October 24, 2002 the bid date. In accordance with the contract, the buyer pay the 20% of the total contract amount as the guarantee deposit and down payment and the rest amount of contract will be paid in installments: 30% on December 20, 2002 the settlement date, and each 25% in six months and twelve months after the settlement date, respectively.
- b. In 2001, the government's financial rehabilitation fund management committee established a financial rehabilitation fund to absorb troubled financial institution with negative net worth, ahead of the transfer of their operations to stronger bank through mergers and or acquisitions. The Central Deposit Insurance Corporation (herein after referred to as the "CDIC") on behalf of the fund mentioned above has entered into an agreement with UWCCB's to take over Song Shan Farmers Association and Ping Tong Association as UWCCB's branches because of these two Associations' unsound financial conditions. CDIC, on the other hand, agreed to pay off the liabilities exceeding the assets appraised as of takeover date, September 1st, 2001 and September 15th, 2001 for Song Shan Farmers Association and Ping Tong Farmers Association, respectively. CDIC will reimburse UWCCB a total of NT\$4,654,000 (US\$134,121), negative net worth of these two associations.

18. Information for Investment in Mainland China: None

19. Segment Information: None

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20. The Subsidiaries' Concise Balance Sheets and Statements of Income

(a) Concise balance sheets:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				CATHAY CENTURY INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.				UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD.			
	December 31, 2002		December 31, 2001		December 31, 2002		December 31, 2001		December 31, 2002		December 31, 2001		December 31, 2002		December 31, 2001	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Current assets	\$465,127,273	13,404,244	\$434,824,661	\$12,423,561	\$7,317,042	\$210,867	\$6,725,995	\$192,173	\$48,805,967	\$1,406,512	\$38,800,431	\$1,108,583	\$213,899,803	\$6,164,259	\$239,637,698	\$6,846,791
Exchange bills negotiated, discounted, and loans	488,113,293	14,066,666	481,306,746	13,751,622	942,396	27,158	1,101,444	31,469	110,364,439	3,180,531	106,276,766	3,036,479	394,578,267	11,371,132	427,930,788	12,226,594
Funds and long-term investments	307,847,291	8,871,680	190,329,029	5,437,972	1,029,427	29,666	928,747	26,536	5,303,964	152,852	3,376,762	96,479	12,153,144	350,235	12,577,702	359,363
Property and equipment	15,967,119	460,147	14,347,035	\$409,915	67,526	1,946	46,206	1,321	1,470,615	42,381	1,230,738	35,164	23,240,572	669,757	22,941,184	655,462
Other assets(including intangible assets)	8,503,594	245,060	10,285,106	293,860	97,868	2,820	64,890	1,853	11,155,416	321,482	5,667,297	161,923	8,675,240	250,007	4,176,251	119,322
Current liabilities	10,690,988	308,098	6,844,439	195,555	769,330	22,170	549,462	15,699	165,148,632	4,759,326	143,358,147	4,095,946	597,754,504	17,226,355	641,210,391	18,320,297
Long-term liabilities	3,726	107	3,726	106	7,668	221	1,733	50	0	0	0	0	34,119	983	34,119	975
Other liabilities	1,206,205,109	34,760,954	1,049,397,911	29,982,797	5,985,555	172,495	5,532,018	158,057	193,511	5,577	145,409	4,155	717,575	20,679	864,242	24,692
Capital stocks	50,686,158	1,460,696	58,386,158	1,668,176	2,317,006	66,773	2,317,006	66,200	12,346,083	355,795	12,346,083	352,745	39,715,627	1,144,543	37,716,644	1,077,618
Capital surplus	3,048	88	130,494	3,729	0	0	724	21	0	0	88,315	2,523	5,095,598	146,847	5,870,989	167,743
Retained earnings	26,228,308	755,859	23,657,055	675,916	372,528	10,736	464,077	13,260	(587,825)	(16,940)	(585,960)	(16,741)	9,122,517	262,897	21,363,930	610,398
Equity adjustments	(924,904)	(26,654)	6,657	190	2,172	62	2,262	65	0	0	0	0	107,086	3,086	203,308	5,809
Treasury stocks	(7,333,863)	(211,351)	(7,333,863)	(209,539)	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	\$1,285,558,570	\$37,047,797	\$1,131,092,577	\$32,316,930	\$9,454,259	\$272,457	\$8,867,282	\$253,352	\$177,100,401	\$5,103,758	\$155,351,994	\$4,438,628	\$652,547,026	\$18,805,390	\$707,263,623	\$20,207,532
Total liabilities	\$1,216,899,823	\$35,069,159	\$1,056,246,076	\$30,178,458	\$6,762,553	\$194,886	\$6,083,213	\$173,806	\$165,342,143	\$4,764,903	\$143,503,556	\$4,100,101	\$598,506,198	\$17,248,017	\$642,108,752	\$18,345,964
Total stockholders' equity	\$68,658,747	\$1,978,638	\$74,846,501	\$2,138,472	\$2,691,706	\$77,571	\$2,784,069	\$79,546	\$11,758,258	\$338,855	\$11,848,438	\$338,527	\$54,040,828	\$1,557,373	\$65,154,871	\$1,861,568

(Continued)

CATHAY FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(b) Concise statements of income:

Items/Period	CATHAY LIFE INSURANCE CO., LTD.				CATHAY CENTURY INSURANCE CO., LTD.				CATHAY UNITED BANK CO., LTD.				UNITED WORLD CHINESE COMMERCIAL BANK CO., LTD.			
	For the year ended Dec. 31,2002		For the year ended Dec. 31,2001		For the year ended Dec. 31,2002		For the year ended Dec. 31,2001		For the year ended Dec. 31,2002		For the year ended Dec. 31,2001		For the year ended Dec. 31,2002		For the year ended Dec. 31,2001	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Operating revenues	\$451,858,334	\$13,021,854	\$391,361,364	\$11,181,753	\$11,150,975	\$321,354	\$10,750,267	\$307,151	\$10,503,809	\$302,704	\$10,516,538	\$300,472	\$32,847,130	\$946,603	\$40,963,392	\$1,170,383
Operating costs & expenses	(436,287,547)	(12,573,128)	(377,186,156)	(10,776,748)	(10,803,696)	(311,346)	(10,305,355)	(294,438)	(10,759,231)	(310,064)	(9,341,143)	(266,889)	(43,615,548)	(1,256,932)	(34,463,833)	(984,681)
Operating income	15,570,787	448,726	14,175,208	405,005	347,279	10,008	444,912	12,713	(255,422)	(7,360)	1,175,395	33,583	(10,768,418)	(310,329)	6,499,559	185,702
Non-operating revenues	527,593	15,204	349,079	9,973	4,773	137	2,538	72	31,979	922	25,481	728	316,279	9,115	79,324	2,207
Non-operating expenses	(39,291)	(1,132)	(65,010)	(1,856)	(1,369)	(39)	(1,098)	(32)	(26,395)	(761)	(21,494)	(614)	(1,475,171)	(42,512)	(265,311)	(7,521)
Operating income before taxes	16,059,089	462,798	14,459,277	413,122	350,683	10,106	446,352	12,753	(249,838)	(7,199)	1,179,382	33,697	(11,927,310)	(343,726)	6,313,572	180,388
Net income	12,846,157	370,206	10,599,467	302,842	234,503	6,758	358,523	10,244	(90,180)	(2,599)	1,088,946	31,113	(8,807,310)	(253,813)	5,258,372	150,239
Before income tax earnings per share (in dollars)	\$2.98	\$0.09	\$2.48	\$0.07	\$1.51	\$0.04	\$1.93	\$0.06	(\$0.20)	(\$0.01)	\$0.96	(\$0.03)	(\$3.00)	(\$0.09)	\$1.59	\$0.05
After income tax earnings per share (in dollars)	\$2.39	\$0.07	\$1.81	\$0.05	\$1.01	\$0.03	\$1.55	\$0.04	(\$0.07)	(\$0.00)	\$0.88	\$0.03	(\$2.22)	(\$0.06)	\$1.32	\$0.04

Annotation: On April 11, 2002, Cathay United Bank Co., Ltd. had transferred its delinquent assets to Taiwan Asset Management Corporation, and the related losses amounted to NT\$1,894,609(US\$54,256). According to Article 15 of the R.O.C. Financial Institution Merger Law, the losses on the transaction will be amortized over five years from April 2002. As of December 31, 2002, the unamortized losses on the transfer of delinquent assets accounted for as other assets amounted to NT\$1,610,418(US\$46,410) and should be recognized as current expenses, provision for credit losses of its subsidiary (Cathay United Bank Co., Ltd.) increased by NT\$1,610,418 (US\$46,410), the net income before tax of its subsidiary decreased by NT\$1,610,418(US\$46,410), the income tax benefit of its subsidiary increased by NT\$402,605(US\$11,603) and the net income after tax of its subsidiary decreased by NT\$1,207,813(US\$34,807) for the year ended December 31, 2002.

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21. Elimination Of Reciprocal Accounts

According to the SFC regulations, the Consolidated Statements should disclose as follows:

Transactions	Account Item	For the year ended December 31,			
		2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
The investments between the parent and subsidiaries and between the subsidiaries themselves should be eliminated with an investee's equity, as well as inter-company balances (including inter-company open account balances, receivables, payables collected and payments in advance accounts).	Common stock	\$105,064,872	\$3,027,806	\$110,765,890	\$3,164,740
	Capital surplus	5,098,647	146,935	6,090,523	174,015
	Legal reserve	30,840,658	888,780	28,167,672	804,791
	Unappropriated retained earnings	145,786,975	4,201,354	809,020	23,115
	Cumulative transaction adjustments	199,570	5,751	212,227	6,064
	Unrealized valuation losses on long-term equity investments	1,015,215	29,257	—	—
	Allowance for valuation loss on long-term investments in stock	935,733	26,966	—	—
	Treasury stock	7,333,863	211,351	7,333,863	209,538
	Short-term investments	1,710,822	49,303	—	—
	Allowance for valuation loss on short-term investments	800,823	23,078	—	—
	Long-term investments in stock	137,175,271	3,953,178	74,846,501	2,138,471
	Minority interest	—	—	79,987,378	2,285,354
	Deferred tax assets	402,605	11,602	—	—
	Other assets	1,610,418	46,410	—	—
	Gain on long-term investments	13,535,077	390,060	137,135	3,918
	Net income before acquisitions of the subsidiaries	9,277,294	267,357	10,462,332	298,924
	Minority interest income	—	—	6,705,842	191,595
	Provisions expenses	1,610,418	46,410	—	—
	Gain on trading notes and bills	181,674	5,236	—	—
	Loss on trading notes and bills	44,663	1,287	—	—
	Income taxes benefit	402,605	11,602	—	—

(Continued)

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Transactions	Account Item	For the year ended December 31,			
		2002(NT\$)	2002(US\$)	2001(NT\$)	2001(US\$)
	Deposits and				
	remittances payable	\$37,244,860	\$1,073,339	\$24,394,027	\$696,972
	Cash and cash				
	equivalents	37,244,860	1,073,339	24,394,027	696,972
	Prepayments	2,692	78	2,301	66
	Accounts collected in				
	advance	2,692	78	2,301	66
	Payables	57,430	1,655	57,430	1,641
	Receivables	57,430	1,655	57,430	1,641
	Interest income	433,148	12,483	326,580	9,331
	Interest expenses	433,148	12,483	326,580	9,331
	Premiums income	151,881	4,377	113,933	3,255
	Insurance expenses	151,881	4,377	113,933	3,255
	Rental income	199,790	5,758	189,812	5,423
	Rental expenses	199,790	5,758	189,812	5,423
	Guarantee deposits				
	received	51,359	1,480	44,784	1,280
	Guarantee deposits				
	paid	51,359	1,480	44,784	1,280
	Other revenues	9,746	281	—	—
	Other expenses	9,746	281	—	—
	Indemnity income	17,700	510	13,102	374
	Insurance Claims				
	Payment	17,700	510	13,102	374